epigenomics

ANNUAL REPORT 2014

Epi proColon®

2014

FINDING CANCER EARLY. IN BLOOD

CONTENTS

FOREWORD BY THE EXECUTIVE BOARD

DEAR SHAREHOLDERS,

Despite of the unexpected delay in the U.S. regulatory process for Epi proColon®, the innovative and convenient blood-based colorectal cancer (CRC) screening assay, Epigenomics had a very successful year in 2014. In this year we obtained market approval for our lead product in China, which represents a major milestone in the history of our Company and a tremendous market opportunity. The approval in the U.S.A., the largest global market for diagnostic products, is reliant on an additional study which is now nearing completion.

➛ **AREAS OF KEY FOCUS IN 2014.** The year 2014 focused on the U.S. Food and Drug Administration (FDA) Premarket Approval (PMA) process for our key value driver Epi proColon®. While taking the final steps for approval to market the test in the U.S., we are preparing and expanding, together with our local partners, commercialization in China and other important international markets while further strengthening our position in Europe. We closed 2014 with a solid financial position, ending the year with EUR 7.5 million in liquid assets, following a successful capital increase in October that was subscribed by BioChain, our strategic partner in China.

➛ **EPI PROCOLON® IN THE U.S. – FINAL STEPS TOWARDS PMA APPROVAL.** In June 2014, we received the response letter with respect to our PMA application from the FDA. In this letter, it was determined that while the studies performed so far had established the clinical performance of the test, the PMA application did not contain sufficient evidence to warrant an approval for Epi proColon®. The main concern expressed, revolved around the need for additional data demonstrating that the blood-based Epi proColon® test will increase compliance to CRC screening in the intended use population, i.e. in those patients who today do not undergo CRC screening by guideline-recommended methods such as colonoscopy or stool-based Fecal Immunochemical Tests (FIT). The FDA's response to our PMA submission in the U.S. was unexpected for us based on the conclusions of the Molecular and Clinical Genetics Panel of FDA's Medical Devices Advisory Committee at the end of March 2014, which voted positively that the benefits of Epi proColon® outweigh the risks for use in patients who meet the criteria.

As a consequence, during the second half of 2014 we worked very closely with the FDA on the design of the ADMIT trial (**AD**herence to **M**inimally **I**nvasive **T**esting) with the intention to meet the agency's expectations. This clinical trial is being conducted in subjects that have been historically non-compliant to CRC screening according to current screening guidelines. Subjects were invited to a clinic visit and once enrolled into the trial, they were randomized to either the FIT test to take home to complete and send back within six weeks or to a blood draw for completion of the Epi proColon® test, to be completed in the same time frame. The primary endpoint is a statistically significant increase in adherence to testing by subjects offered the Epi proColon® test compared to subjects given the FIT test.

To optimize subject recruitment and speed up the trial process, we partnered with two major U.S. health care systems, Kaiser Permanente and Geisinger Health Systems, who actively manage CRC screening programs and who helped us to identify the appropriate patients for the study within their managed patient populations. Enrollment of the first subjects had started in December 2014 and we expect that the collection of all samples and their analysis will be completed in Q2 2015.

In parallel, our U.S. commercialization partner Polymedco, a leading provider of colorectal cancer tests in North America with an exclusively CRC-dedicated sales force, reiterated its commitment to support the launch and commercialization of Epi proColon® in the U.S.. While the ADMIT trial is underway, Polymedco is continuing to diligently prepare for commercializing Epi proColon® once the product is approved and has therefore commenced training its sales staff as well as establishing customer and technical support functions during the second half of 2014. In addition, Polymedco strongly supported Epigenomics with continued logistics and personnel assistance in the ADMIT trial.

➛ **EPI PROCOLON® WORLDWIDE – START OF CHINESE COMMERCIALIZATION.** In December 2014, together with our Partner BioChain, a leading clinical diagnostics company in cancer and genetic testing in China, we received market approval for Epi proColon® from the China Food and Drug Administration (CFDA). The approval was based on a major clinical validation study completed by BioChain announced in April 2014, which confirmed the previously demonstrated positive clinical performance of Epi proColon®. While detecting 75% of all cancer cases at 97% specificity in the Chinese study, this data demonstrated the potential for Epi proColon® to become an important tool for medical professionals in establishing and expanding CRC detection in China where the healthcare authorities are currently establishing screening programs for major cancer diseases. The availability of CRC screening based on a simple blood sample will enable high patient participation in the detection of CRC as a means to reduce later stage disease and the associated healthcare costs. Our partner BioChain meanwhile launched Epi proColon® into the Chinese market through its established distribution channels.

Dr. Thomas Taapken, CEO/CFO, Dr. Uwe Staub, COO

In Europe, we further gained market share and strengthened our position through selected and successful marketing campaigns. For example in October, during the Berlin “Health Week” together with a local laboratory (IMD) we hosted an awareness day for CRC screening. Under the title “Band-Aid does not help with Colorectal Cancer”, interested parties were informed about the risks of CRC and were invited to undergo CRC screening. A high level of interest among the pre-invited participants with a record compliance to the test of more than 65% highlighted the commercial potential in this market.

Meanwhile Argentina, where CRC mortality rates are still among the highest in the world, became the first country outside Europe to grant marketing approval for Epi proColon®. Our local partner VSA Alta Complejidad S.A., Buenos Aires, subsequently started to make the test available in 2014.

➛ **EPI PROCOLON® IN SCIENCE – SEVERAL PUBLICATIONS UNDERPIN EXCELLENT PERFORMANCE AND GREATER ACCEPTANCE.** In October, the results of a trial assessing the impact of a non-invasive blood-based test on patient adherence to CRC screening conducted by Dr. Andreas Adler and his team at the Charité in Berlin, Germany, were published in the journal BMC Gastroenterology. In a peer-reviewed article titled "Improving compliance to colorectal cancer screening using blood- and stool-based tests in patients refusing screening colonoscopy in Germany" the authors showed that only 37% out of a total of 172 subjects were willing to undergo colonoscopy, one of the currently recommended methods for routine screening. In the remaining 63% of the patients who refused colonoscopy, 83% selected a Septin9 blood test, demonstrating the preference of patients for an easy and convenient blood test. It was clearly demonstrated that in offering additional alternatives for screening, the overall rate of participation in CRC screening can be drastically improved, thus addressing the ambitious screening goals set out by healthcare authorities and medical societies in most countries.

In addition, the results from our U.S. clinical validation studies for Epi proColon® including the head-to-head comparative study with FIT have been published in two renowned scientific peer-reviewed journals, Clinical Chemistry *(www.clinchem.org)* and PLOS ONE *(www.plosone.org)*. This is of particular importance as payers, policymakers, medical societies and guideline bodies rely on this information for their decision-making process.

Additional publications in the Czech Republic, China and other countries underpin the potential of Epi proColon® 2.0 CE as an attractive alternative to existing CRC screening methods in areas where sufficient compliance to CRC screening programs is currently not achieved.

➛ **EPI PROLUNG® AND FUTURE DEVELOPMENTS.** Based on a series of very impressive publications by academic partners on the utilization of our lung cancer diagnostic product Epi proLung® in different indications ranging from treatment monitoring to tumor staging, we have embarked on the development of a blood based version of this product. We are convinced that lung cancer poses a very attractive indication for our diagnostic products. While the medical need for accurate and convenient lung cancer tests is enormous, there are still very few products available or procedures in development to address this very important market.

Furthermore, we are constantly monitoring developments in the CRC screening field and constantly evaluating technologies which could improve the performance of Epi proColon® going forward. Knowing how long it takes from discovery to an approved product, we are convinced that efforts to develop second generation products in this field have to start now.

➛ **SUCCESSFUL FINANCIAL YEAR ENSURING PARTNER COMMITMENT AND THE FUTURE.** In October 2014, BioChain invested EUR 4.2 million into our Company. This investment of our strategic partner reinforces and deepens our joint commitment to the successful launch of Epi proColon® throughout China and is clear evidence of the strong confidence in our joint future success. The funds are very important for Epigenomics as we progress with our lead product. In particular, the new funds ensure our financial flexibility and extend our cash reach for the execution of important next steps as well as the completion of the above-mentioned milestones. These funds supplement the cash inflows we were able to generate by convertible notes issued in December 2013, through which we were able to secure EUR 3.7 million in 2014. There are still further bonds outstanding, which will add to our financial flexibility going forward before we will be able to generate more significant cash inflows through actual product sales.

➛ **U.S. INVESTOR FOCUS TO SUPPPORT OUR GROWTH.** An important part of our strategy is to raise our profile in the U.S. capital markets to intensify our interactions with U.S. investors and institutions as we approach a FDA decision regarding approval of our blood-based colorectal cancer detection test, Epi proColon®. Given the recent strength of the U.S. capital markets, we have been interacting very actively with investors in the U.S.A. throughout 2014, where we experience growing interest in our investment story. Moreover, since January 2014, our American Depositary Receipts (ADRs) are now trading on OTCQX International. We strongly believe that our ADR program serves as a stepping-stone to approach U.S. investors more effectively in the future.

Driven by our continued commercial progress throughout 2014, the strong commitment demonstrated by our partners and our strengthened financial position, confidence within the investment community remained high. Despite a drop in share price on the back of FDAs approval decision, our share price regained strength in the last four months of the year, a trend which we hope to intensify as we move closer to the potential FDA approval for Epi proColon®.

➛ **LOOKING AHEAD.** With Epi proColon® now being approved in China, the next important milestones for Epigenomics in 2015 are to roll out the test and to make it an integral part of standardized CRC screening procedures in countries where it is approved. Furthermore, FDA's approval decision for Epi proColon® in the U.S. remains a key target for Epigenomics. Together with our partners we will work with healthcare organizations, payers and patients to increase awareness and compliance to CRC screening and thus pave the way for our commercial success.

We are very much looking forward to keeping you informed about major updates and progress especially on milestones in relation to the FDA regulatory process and commercialization of Epi proColon®. We remain grateful to our shareholders for their ongoing support and trust in Epigenomics. At the same time, we would like to take the opportunity to thank our employees for their continued dedication and our customers and partners for their loyalty.

Yours sincerely,

Dr. Thomas Taapken
(CEO/CFO)

Dr. Uwe Staub
(COO)

REPORT OF THE SUPERVISORY BOARD

DEAR SHAREHOLDERS,

Although the FDA has not yet approved Epi proColon® in 2014, the Company still managed to achieve additional important milestones during this past year. The meeting of the Molecular and Clinical Genetics Panel of the Medical Devices Advisory Committee, which the FDA convened in a meeting in March, confirmed that our test for early detection of colorectal cancer is suitable for approval in the U.S.. Nevertheless, the FDA requested another study meant to demonstrate that the blood-based test could improve participation in colorectal cancer screening within the intended population. We will release the findings of the study in the next few months and file them with the FDA. Together with BioChain in China, we received approval for the test in the fourth quarter so that sales to China should pick up significantly during the year. BioChain has broadened its position as an important shareholder at Epigenomics by the end of 2014.

The cost optimization consistently pursued by the Company is helping to limit the cash outflow. However, due to the multiple tasks at hand this entails an enormous strain on the entire staff. The Supervisory Board would like to thank all the employees of Epigenomics for their exceptional dedication in 2014.

The financial situation of the Company could be improved through various measures. Securing our financial position for the medium term will continue to be of primary concern to the Management Board this year. Management is regularly reviewing efforts in this regard with the Supervisory Board. In light of the anticipated FDA approval, the Supervisory Board will work closely with the Executive Board to examine all strategic options.

WORK OF THE SUPERVISORY BOARD

Throughout 2014, the Supervisory Board of Epigenomics AG again fulfilled all its duties assigned to it by law, the Articles of Association and the Rules of Procedure. The Board advised and monitored the Executive Board in managing the Company and was continuously informed about operational progress, key challenges, the overall financial situation and findings from the risk management system of the Company. All corporate planning, including financial, capital expenditure and human resources as well as general business performance was reported on a regular basis by the Executive Board. To the extent that German corporate law or the existing Rules of Procedure required consent for certain decisions or actions of the Executive Board, such approvals were granted by the Supervisory Board after thorough deliberation and careful examination of oral reports and written documentation, which were provided.

Heino von Prondzynski, Chairman of the Supervisory Board

Among the important issues discussed regularly at the Supervisory Board meetings in 2014, the ongoing FDA regulatory process for Epi proColon® in the U.S., particularly the FDA panel meeting at the end of March 2014 as well as the ADMIT trial required by the FDA was an overarching topic of ongoing discussion. Further important topics were the strategic collaboration with BioChain and the capital increase successfully conducted in October 2014, the successful approval of Epi proColon® in China, the overall financial situation of the Company as well as human resources issues. The Supervisory Board also pursued the progress achieved during the relocation of the Company to a new site. Furthermore, a regular assessment of possible business transactions concerning approvals of the Supervisory Board for terms and conditions of new collaboration contracts was a matter of review and discussion throughout the year.

The Supervisory Board adopted the annual financial statements for financial year 2014 and has approved the consolidated financial statements. The Supervisory Board always took into account in its work the interests of Epigenomics' shareholders.

During 2014, six ordinary plenary meetings of the Supervisory Board with the Company's Executive Board took place on January 29, March 17, June 3, July 16, September 30 and December 4. These meetings were held in Berlin. All members of the Supervisory Board attended all the meetings.

In addition to the very close dialog between all members of the Supervisory and the Executive Board in joint plenary meetings, detailed written and oral reports of the Executive Board were provided to the Supervisory Board within the framework of numerous telephone conferences and individual discussions. Thus, the Supervisory Board was continually kept up to date on the Company's current business situation and key events throughout the year.

At its meeting on December 4, 2014, the Supervisory Board considered in detail the operational budgets, financial planning and human resource allocation plan for the fiscal year 2015 and approved the business plan for 2015. It also approved the Executive Board's remuneration.

For each formal meeting of the Supervisory Board, in the presence of the Executive Board, all members of the Supervisory Board received comprehensive written reports in advance, prepared by the Executive Board with the input of the respective managers of the Company. These detailed documents were comprehensive to analyze and discuss all relevant topics of the respective agenda of the Supervisory Board meetings and to pass all required resolutions. Written minutes of all official meetings and telephone conferences were prepared. Whenever necessary, resolutions were also passed by written vote in accordance with the Company's Articles of Association.

ORGANIZATIONAL CHANGES IN THE EXECUTIVE BOARD IN 2014

In the third quarter of 2014 the Supervisory Board has mutually decided, before the end of his current contract, to re-appoint Dr. Uwe Staub as Chief Operating Officer (COO) of Epigenomics AG for three years through March 31, 2018.

CONFLICTS OF INTEREST

No conflicts of interest for the members of the Supervisory Board arose during the reporting year.

COMMITTEES

Since the Company's Supervisory Board consists of only three members it does not consider the formation of committees to be adequate. The Supervisory Board has designated Prof. Dr. Günther Reiter as the main expert for financial reporting and audit matters. In this role, he regularly discussed with the Executive Board and Senior Vice President Finance, Accounting and Controlling as well as with the auditor of the Company, in order to provide advice on the preparation of financial reports, audits and quarterly reviews. He provides regular reports and highlights any findings and observations in this area to the entire Supervisory Board. At the same time, the Supervisory Board designated Ann Clare Kessler, Ph.D., as the main expert on compensation and nomination matters. Heino von Prondzynski was designated the main expert regarding corporate governance.

CORPORATE GOVERNANCE

The Supervisory Board continuously reviewed all issues of legal and regulatory compliance by the Company. Given the rapidly and ongoing changing economic environment and due to the current financial position of the Company, the Supervisory Board also dealt intensively with the adequacy of the risk management system. Both the Executive Board and the Supervisory Board regard the commitment to good corporate governance as exceedingly important to strengthen the confidence of current and future shareholders, corporate partners and employees of the Company. In October 2014, the Executive Board and the Supervisory Board issued a new Declaration of Compliance with the German Corporate Governance Code (the "Code") pursuant to Section 161 of the German Stock Corporation Act (Aktiengesetzt – AktG), which is included in this annual report and is also permanently available on Epigenomics' website *(www.epigenomics.com/en/news-investors/investors/corporate-governance.html).*

In its declaration, the Company has committed itself to adherence to the Code, and only deviates in explicitly mentioned, Company-specific cases from its recommendations.

AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

The independent audit company UHY Deutschland AG Wirtschaftsprüfungsgesellschaft (UHY), Berlin, has audited the annual financial statements and the related management report of Epigenomics AG for fiscal 2014 in accordance with the principles of the German Commercial Code (HGB), as well as the consolidated financial statements and the Group management report for fiscal 2014 according to International Financial Reporting Standards (IFRSs), as adopted by the European Union (EU).

UHY did not raise any objections for either of the financial statements and approved them with unqualified audit opinions. Furthermore, not intended to qualify its opinion, UHY pointed out that the consolidated financial statements are prepared on a going concern basis of the Group. However, based on the current budget and projected income the available liquidity at balance sheet date is not sufficient to sustain the Group's operations over the following 12 months.

In this regard, UHY refers to the explanations regarding financial risks in the consolidated management report, in particular to the sections "Financial opportunities and risks" and "Outlook on financial situation". Here it is stated "Without any other alternative cash inflows from financing activities before that point in time, our cash runway would not be long enough to reach into 2016 so that our continued existence would be threatened. In such a scenario, while running out of funds, the Company would have to file for insolvency."

The consolidated financial statements and the Group management report were prepared in accordance with Section 315a HGB using international accounting standards IFRSs, as adopted by the EU. UHY's audit was conducted in accordance with German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany ("Institut der Wirtschaftsprüfer in Deutschland e. V."). The audit reports and the audit certificates were submitted to the Supervisory Board by the Executive Board in a timely manner.

The UHY audit reports were presented to all members of the Supervisory Board and were discussed in depth at the meeting on March 12, 2015, in the presence of the auditor, who reported on the main findings of its audit. At this meeting, the Executive Board explained the annual financial statements 2014 and consolidated financial statements 2014, as well as the Company's risk management system. UHY also provided a report on the scope, focal points and findings of the audit. As a result of its own observations and examinations, the Supervisory Board raised no objections, accepted and confirmed the results of the audit. The Supervisory Board in the presence of the auditor formally approved the annual financial statements and the consolidated financial statements as of December 31, 2014, without exception and modification. By the Supervisory Board's approval, the annual financial statements 2014 of Epigenomics AG are thus adopted as submitted in accordance with Section 172 AktG.

With respect to the existing internal control and risk management system as well as with the Company's early warning system, the auditor stated to the Supervisory Board that in his opinion these systems are suitable to meet all legally intended requirements. Throughout the entire year 2014, the Supervisory Board worked towards the implementation of appropriate risk management measures.

The Supervisory Board would like to thank the Executive Board, the senior management as well as all employees of Epigenomics for their commitment and dedication throughout the year 2014.

Berlin, March 2015

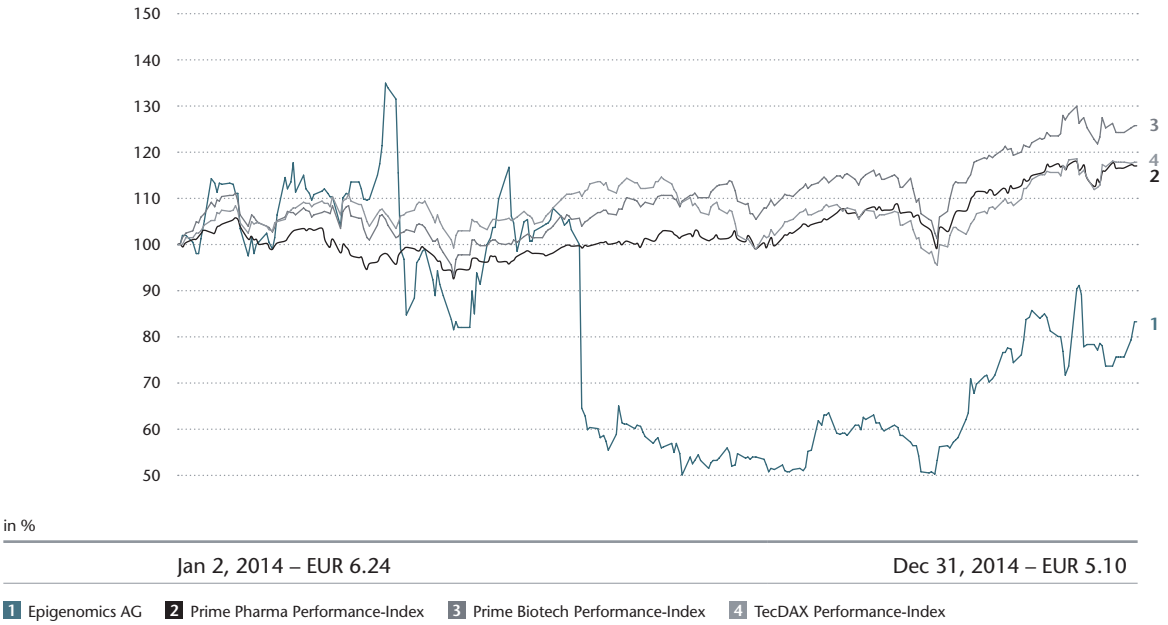
On behalf of the Supervisory Board

Heino von Prondzynski

OUR STOCK

SHARE PRICE DEVELOPMENT CLOSELY LINKED TO PROGRESS APPROVAL PROCESSES FOR EPI PROCOLON® IN THE U.S.A. AND CHINA

SHARE PRICE PERFORMANCE IN 2014



Epigenomics' share price at the closing of the year 2013 was EUR 6.12 (XETRA). The share price peaked at EUR 8.25 on March 20, 2014, in expectation of encouraging news from the meeting of the FDA's "Medical Devices Advisory Committee" on Epi proColon®. The outcome of that meeting was generally disappointing for the Company and its investors. Hence, the share price trended down over the following weeks and finally reached a temporary low of EUR 4.98 by mid April. In the coming weeks, the share price quickly recovered to a level between EUR 6.00 and EUR 7.00 in May due to positive expectations about the FDA's final approval decision. As the FDA postponed its final decision to 2015 by requesting another study, the share price took a downswing below EUR 4.00 and tested the EUR 3.00 mark in August. For the remainder of the year, the share price oscillated in a range between that level and EUR 5.50, trending towards the higher end of the range after the successful completion of a capital increase subscribed by our Chinese commercialization partner BioChain in October 2014. The shares closed at EUR 5.10 on December 31, 2014.

With ongoing significant volatility, trading volumes on XETRA decreased from a daily average of about 112,000 shares in the first quarter to around 58,000 in the fourth quarter of 2014.

CHANGES IN THE SHARE CAPITAL/CAPITAL MEASURES

During the reporting period, the number of outstanding shares increased by 2,397,530 and the total number of shares outstanding was 15,480,422 as of December 31, 2014. The market capitalization of Epigenomics amounted to EUR 79 million at the end of 2014, nearly unchanged to the valuation at the beginning of the year (EUR 80 million).

In December 2013, Epigenomics issued 25 convertible notes with a principal amount of EUR 107,000.00 each to investors in Europe and the U.S.A.. Seven of these were converted into 1,039,775 new shares throughout 2014. The remaining 18 convertible notes will mature at the end of this year.

In September 2014, the number of outstanding shares increased by 6,666 new shares due to the exercise of stock options.

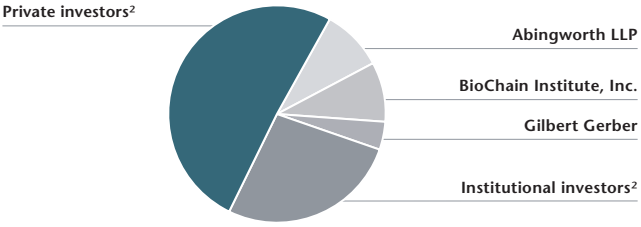
Furthermore, 1,351,089 new shares were issued to BioChain in the context of a private placement in October 2014. BioChain had already invested in Epigenomics in October 2013 in connection with a broad strategic collaboration agreement.

SHAREHOLDER STRUCTURE

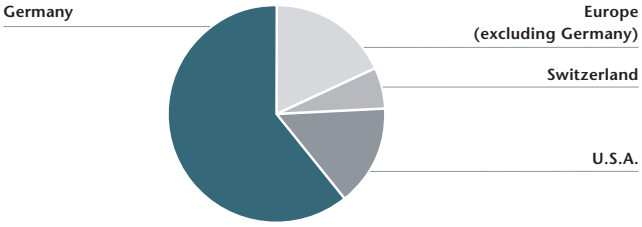
The following shareholders held more than 3% each of Epigenomics AG at the end of the financial year. Recent voting rights notifications are available on our website under "News & Investors".

Shareholder	Voting rights threshold
Abingworth LLP[1]	>5%
BioChain Institute, Inc.[1]	>5%
Mr. Gilbert Gerber	>3%

AS OF DECEMBER 31, 2014



BY REGION, AS OF DECEMBER 31, 2014[3]



As of December 31, 2014, around 86% of the Epigenomics shares were in free float.[2] The largest proportion is held by private investors. According to an analysis of the share register, investors in Europe and especially Germany held a majority of the shares.

[1] total held, controlled and advised

[2] free float according to the definition of Deutsche Börse AG

[3] by location/domicile of shareholders according to Epigenomics

Key data on Epigenomics' shares

ISIN	DE000A11QW50
Security code number	A11QW5
Ticker symbol	ECX
Stock exchange	Frankfurt Stock Exchange Regulated Market (PrimeStandard)
Number of shares outstanding (Dec 31, 2014)	15,480,422
Free float (Dec 31, 2014)[1]	86.80%
Market capitalization (Dec 31, 2014)	EUR 78,950,152
Year-end closing price	EUR 5.10

TRANSPARENT DIALOG WITH SHAREHOLDERS – CONVERTING INTO REGISTERED SHARES

Epigenomics is committed to maintaining an ongoing and active dialog with the investment community in order to regularly provide timely, accurate and comprehensive information about the Company and its products. To facilitate direct communications with shareholders and increase transparency of the shareholder structure, Epigenomics converted all bearer shares into registered shares effective Monday, September 22, 2014, at a ratio of 1:1. The international security identification number (ISIN) and the security code number (WKN) changed due to the conversion. The new WKN is A11QW5, while the ISIN is now DE000A11QW50. The ticker symbol continues to be ECX.

Throughout 2014, the Company hosted regular conference calls for investors and analysts to discuss the financial results and provide updates on the Company's developments. Epigenomics' management also presented at several investor meetings and published updates on clinical data at major scientific conferences in the United States and in Europe. Furthermore, the Company continued to provide opportunities for a close dialog with shareholders and interested investors at numerous roadshow meetings in Germany, Austria, Switzerland, France, United Kingdom and the U.S.A..

During the past year, the primary focus for investors was the progress of the PMA process with the FDA for Epi proColon® in the U.S.A.. Further important issues were the strategic collaboration with China-based BioChain and the approval of the Epi proColon® test in China as well as the overall financial situation of the Company, including capital measures conducted during the year.

On March 28, 2014, Epigenomics hosted its annual press conference and analyst meeting in Frankfurt am Main, Germany. The Annual General Shareholders' Meeting took place in Berlin on June 3, 2014. At the Annual General Shareholders' Meeting, all proposals of the Company were agreed by large majorities with a representation of about 21% of the Company's share capital.

ANALYST COVERAGE AND ADR PROGRAM

In March 2014, Maxim Group LLC became the first U.S.-based investment bank to initiate coverage of Epigenomics. In addition, the analysts of equinet Bank AG, First Berlin Equity Research GmbH, Kempen & Co. N.V., and Edison Investment Research (until December 31, 2014) covered Epigenomics during 2014 providing analysis updates and recommendations.

Since the beginning of 2014, Epigenomics' ADRs are traded on the OTCQX International market, a segment reserved for high-quality non-U.S. companies. These ADRs are tradable U.S. dollar denominated certificates representing ordinary shares of the Company at a ratio of five ordinary shares to one Epigenomics ADR. BNY Mellon acts as the Company's "Principal American Liaison" (PAL) on OTCQX and is responsible for providing professional guidance on OTCQX requirements.

Epigenomics AG – ADR	OTCQX Trading
Structure	Sponsored Level 1 ADR
Ratio	1 ADR = 5 Shares
Ticker symbol	EPGNY
CUSIP	29428N102
ISIN	US29428N1028
Depositary bank/PAL	BNY Mellon

[1] *free float according to the definition of Deutsche Börse AG*

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CONSOLIDATED MANAGEMENT REPORT

ECONOMIC ENVIRONMENT IN 2014 AND OUTLOOK FOR 2015

MACROECONOMIC ENVIRONMENT IN 2014

During 2014, the global economy expanded at a moderate rate. The United Nations (UN) estimated the growth of the gross global product at 2.6%, i.e. only marginally better than in the previous two years. Considerable headwinds for the recovery process from the global financial crisis came especially through "a number of unexpected shocks, such as the heightened geopolitical conflicts in various areas of the world" (United Nations "World Economic Situation and Prospects 2015" report).

The economic development in Europe remained subdued in 2014. In particular, the slowdown of growth in Germany had a negative impact on the overall development of the eurozone. While some crisis countries of previous years – like Portugal, Spain or Ireland – are on the way of recovery, large economics like France and Italy remained troubled and unwilling or unable to put necessary economic and political reforms into effect. Furthermore, growing tensions between Greece and other eurozone countries towards the end of the year about a possible exit of Greece from the eurozone ("GRexit" scenario) tainted the outlook in Europe. In addition, geopolitical tensions in Ukraine, the Middle East and other areas aggravated the overall situation. The consequential deterioration of the European relations to Russia constituted another blow to the economies of the countries concerned.

The German economy, coming somehow out of breath – especially in the second half of 2014 –, was no longer strong enough to compensate for the weaknesses of those other important EU members. However, inflation and unemployment rates remained at low levels in Germany and the price erosion in the commodity markets, first and foremost the oil market, partially compensated this development.

Beyond the European borders, some other former growth drivers either struggled to keep up their previous pace (e.g. China), turned more and more into problem cases (e.g. Brazil) or were hit by negative political events (e.g. Russia), so that it remained up to the U.S.A., Australia and India to keep the global growth rates at least at their previous years' levels.

In 2014, the overall economic development in the U.S.A. was encouraging. After a disappointing first quarter, the economy started to pick up during spring and the growth rate in the third quarter of 2014 was estimated at 5% at an annual basis according to the U.S. Department of Commerce. The sharp decrease of the oil price was mentioned by analysts as the key driving force behind the upswing in the U.S.A. leading to a growth in consumer spending. The increase of the employment rate was the strongest for 15 years. As a reaction to this development, the U.S. Federal Reserve (Fed) phased out its long-running bond-buying program by the end of October and the Federal Open Market Committee confirmed the expected timeline of increasing interest rates in the middle of 2015.

MACROECONOMIC OUTLOOK FOR 2015

While UN experts expect a worldwide growth of 3.1% for 2015, the International Monetary Fund (IMF) projection was somewhat more optimistic, estimating an encouraging 3.8%. As a trend for 2015, the IMF stated in its World Economic Outlook ("Legacies, Clouds, Uncertainties") in October 2014 that "the pace of the recovery is becoming more country-specific". The IMF later revised its estimate in early 2015 and reduced it to 3.5%.

For 2015, the majority of economy experts predict a continuation of the observations made in the second half of 2014 in particular. Increasing growth rates are mainly expected in North America, the United Kingdom and in Spain as well as in some Asian countries like India. At the same time, China and Australia will have to fight to maintain their historic high growth rates of 2014. In particular, China entered a transition process as the government will continue to stimulate domestic consumption, since the dependency on exports and foreign investments is still considered too strong. Moreover, the prevailing environmental problems are in desperate need for a sustainable solution.

Most of the growth projections for 2015 and 2016 were made before the U.S. dollar started to rise dramatically at the end of 2014. The weakness of the euro will likely enhance the competitiveness of the European industry and could accelerate the recovery process in some countries of the eurozone.

Any economic outlook to 2015 is of course subject to the geopolitical developments. The Ukrainian conflict as well as the developments in the Near and Middle East (Islamic State issue) are factors which have the potential of making any forecast obsolete.

The monetary policies in the main economies were in 2014 characterized by central banks flooding the markets with fresh money and record low interest rates, in many cases nearing zero interest rate levels. According to the general consensus of the experts, the Fed and the European Central Bank (ECB) are now expected to drive apart. For the U.S.A., analysts predict the Fed's first interest rate increase since more than nine years, latest at the end of the summer of 2015. On the other side, the ECB is not likely to change its current interest rate policy in the foreseeable future. However, it is questionable whether the ECB will have more success in stimulating the European economy by further weakening the euro and by further increasing the money supply through government bond repurchase programs as now implemented.

After two rather stable years, the exchange rate between the euro and the U.S. dollar started to shift in 2014. While at the beginning of 2014, a rate of EUR/USD 1.38 was recorded, a trend change could be observed from mid-year onwards, when the U.S. dollar gained more and more strength. Finally, at the end of the year, the exchange rate dropped in a nearly straight line down to EUR/USD 1.214. This new tendency can be explained by the economic development and fiscal policy discrepancies between the U.S.A. and Europe. The analyst expectations for 2015 are more consistent than in the years before. The expectation of a scenario of parity between both currencies as an extreme case is finding more supporters as evidenced by the trend at the beginning of 2015.

CAPITAL MARKET ENVIRONMENT

The global stock markets performed inconsistently in 2014. While stock markets in economically troubled countries faced a share price disaster at the end of the year (e.g. Brazil -18% or Russia -54%), the largest returns were seen in Asia (e.g. China +57%, Indonesia +35% or India +34%). Higher volatility than in previous years could be observed all around the world. A total number of more than 1,200 IPOs worldwide – more than half of this in Asia – mirrored the best conditions for new public offerings since 2006.

The German stock market moved sideways in 2014, finally with a modest increase of the DAX index by 2.7%. The U.S. stock market performed more impressively and better than expected by most analysts. Due to the strong second and third quarters of 2014, the S&P 500 finally ended the year up by 11.4%. The Dow Jones Index closed for the sixth consecutive year with a gain (+7.5%). The main contributing factors for the good development in the U.S.A. were the improving economic climate, increasing company profits and last but not least the expansive monetary policy of the Fed.

The healthcare sectors performed very well and outperformed the broader markets significantly in 2014. In the U.S.A., it rose by 23%. The biotech segment again did extremely well. The biotech indexes of NASDAQ and the New York Stock Exchange were up year on year about 34% and 48%, respectively. In the U.S.A. alone, 78 IPOs by pharmaceutical and biotech companies were completed – even more than in the already strong year of 2013 (46). The global investments by venture investors into companies of the biotech segment amounted to more than USD 39 billion in the reporting year. Moreover, a sharp increase in M&A activity could be observed in 2014 in the life sciences sector, despite the steep valuations achieved by some of these companies. This was observed across the board in pharmaceutical and diagnostic sub-segments. Many analysts still remain bullish with regard to 2015 – at least for the biotech segment.[1]

In Germany, the prospects of companies in the biotech industry were more moderate. The markets are still waiting for the first domestic IPO to happen since 2007. Total investments into the sector amounted to less than USD 500 million. Three domestic companies in this sector went public in 2014, but all opted for foreign capital markets as their IPO venues (Affimed listed on NASDAQ, Pieris on the OTC.BB and Probiodrug on Euronext Amsterdam). The domestic financing situation seems to be frozen for private and public companies of that sector since many years now.

INDUSTRY SECTOR ENVIRONMENT

Globally, the industry is searching for innovation and growth according to a sector outlook by Deloitte. The highest growth rates for the industry over the next three to five years (more than 8%) are expected in Asia, the Middle East and Africa, while the rates for Western Europe will be rather modest. Deloitte calls the main challenge to create and maintain "shareholder value in an era of pricing pressures, generics competition, market erosion, supply chain issues and regulatory constraints, all of which can limit life sciences companies' ability to grow revenues. On the cost side, rising R&D expenses, marketing and sales outlays and general operating cost increases can exert pressure on gross margins. Governments in both developed and emerging markets are minimizing pharmaceutical spending growth by enacting pricing and reimbursement legislation."[2]

[1] *See "Large Cap Growth Outlook Wanes, But Fundamentals Remain Strong" (Joshua Schimmer/Piper Jaffray) or Steve Brozak (WBB Securities) on thelifesciencesreport.com.*

[2] *"2015 Global Life Sciences Sector Outlook" (http://www2.deloitte.com/na/en/pages/life-sciences-and-healthcare/articles/2015-global-life-sciences-outlook.html).*

The molecular diagnostics sub-segment of the life sciences industry continues to be one of the most attractive investment opportunities and shows increasing competition. Cancer diagnostics especially remains a growth sector as evidenced by a series of M&A transactions, large financings and corporate partnerships in 2014. The number of molecular tests on the market is increasing rapidly. Regulation and especially reimbursement are becoming more and more important success factors. However, especially in the diagnostics sub-segment, these factors need to be assessed from country to country and from market to market, given the fragmented nature of the regulatory and reimbursement landscapes. The U.S.A. definitely remains the most interesting singular market, as it has an enormous size and is well developed. However, the past years have shown that China is catching up with big steps in terms of public health policy, technology development, maturity of the capital markets and entrepreneurial spirit amongst its population. It is definitely the most interesting market to look at in the medium term and it may offer more and greater opportunities for our industry than most might expect today.

In the "Opportunities and Risks" and "Prognosis Report" sections of this consolidated management report, reference is made to the individual implications that the global situation could have on our business and our Group.

ORGANIZATION, BUSINESS ACTIVITIES AND STRATEGY

GROUP STRUCTURE AND BUSINESS ACTIVITIES

Epigenomics AG is headquartered in Berlin, Germany, and operates a wholly owned subsidiary in the U.S.A., Epigenomics, Inc. registered in Seattle, WA, with offices in Germantown, MD. Our business activities are mainly targeting at the important international markets of North America, Asia and Europe. Epigenomics AG, as the parent company, oversees the Group's central business functions (e.g. accounting, human resources and intellectual property). The Group's research and development (R&D) activities are also conducted from Berlin. Epigenomics, Inc. is mainly active in developing our business and commercial activities in North America and in international markets outside of Europe.

We are a molecular diagnostics company focusing on developing and commercializing in vitro diagnostic (IVD) tests for the screening, early detection and diagnosis of cancer. Our products are based on a unique and proprietary technology platform, which relies on a fundamental biological phenomenon called DNA methylation as a source for the discovery of highly innovative disease-specific biomarkers, which are at the core of every diagnostic test we have developed so far.

We develop and commercialize cancer diagnostic tests, mainly in colorectal cancer (CRC) and in lung cancer, both via direct marketing and sales efforts of IVD kits and through licensing partnerships. Following this business model, we are directly addressing certain market segments through our own products, while others are or will be served by our commercial partners through the licenses granted to them. All our cancer molecular diagnostic products address significant unmet medical needs with a view to providing patients and physicians alike with the benefits from more convenient and superior diagnostic tests. Thereby, we target substantial markets in the largest economic regions.

Our lead product Epi proColon® is a blood-based test for the early detection of CRC, which relies on our proprietary DNA methylation biomarker Septin9. The test has been CE-marked and has been on the European market in its current version since 2012. However, our main activities are focused on the introduction of Epi proColon® as an IVD kit in the U.S.A., the world's largest commercial market for molecular diagnostic products. In early 2013, we had initiated the PMA application with the U.S. Food and Drug Administration (FDA). Throughout the past two years, the FDA reviewed the submitted documentation and information, performed a number of site inspections at our premises and our contract manufacturing partners' facilities and, finally, in March of 2014, held a meeting of the Molecular and Clinical Genetics Panel of its Medical Devices Advisory Committee in Gaithersburg, MD, U.S.A.. After deliberations, the members of the Advisory Committee voted positively that the benefits of Epi proColon® outweigh the risks for use in patients who meet the eligibility criteria. Eventually, we received a formal response letter to our PMA application from the FDA in June 2014. Therein, the agency determined that while the studies performed so far have sufficiently established the clinical performance characteristics of the test, the PMA application does not yet contain sufficient evidence to warrant an approval for Epi proColon®. In order to address this issue, the FDA requested data from an additional clinical trial. After subsequent discussions with the FDA, we agreed to conduct a study to demonstrate that Epi proColon® will increase participation in CRC screening in patients being offered the blood-based test as compared to those being offered a medical-guideline-recommended FIT stool-based test. Subsequently, we initiated such a study (the "ADMIT"[1] study) and started the patient enrollment towards the end of 2014. We expect to finish the enrollment into the ADMIT study by the end of Q1 2015 and will report results from it thereafter. Based on interactions with the FDA, it is expected that the results from this study will be the last missing piece of information to complement our PMA submission on file and we remain hopeful for a positive approval decision by the FDA thereafter.

[1] *ADMIT = ADherence to Minimally Invasive Testing*

Already now, ahead of regulatory approval of Epi proColon® in the U.S.A., blood-based tests using the Septin9 biomarker are available in different markets worldwide through our partners, including Abbott Molecular Diagnostics, Inc. (Abbott), Quest Diagnostics, Inc. (Quest), ARUP Laboratories, Inc. (ARUP) and Gamma Dynacare (Gamma Dynacare). These product and diagnostic service offerings are performed on the basis of licenses granted to these partners by Epigenomics.

We were excited to report that in December 2014, Epi proColon® was approved for commercialization in China by the China Food and Drug Administration (CFDA) as applied for by our Chinese partner BioChain Institute, Inc. (BioChain). BioChain is a leading clinical diagnostics company in cancer and genetic tests in China and the U.S.A. and plans to start offering the test from early 2015 onwards in the Chinese market under a license from us. Furthermore, Epi proColon® has also been approved for commercialization in Argentina in 2014.

CORPORATE STRATEGY

From addressing relevant clinical challenges for development and validation of biomarkers and molecular diagnostic tests to marketing and sales of our products to laboratories, physicians and patients, as a company, we cover all steps necessary to provide commercially successful product offerings. Based on our company history in pioneering DNA methylation technology development and biomarker discovery, interaction with patients and medical professionals is essential to develop and commercialize innovative products that address medically unmet challenges in cancer diagnosis and personalized medicine.

We are convinced that we are the best advocates of our own products and have to spearhead driving their medical adoption. Furthermore, we also realize that the opportunity in cancer molecular diagnostics is too vast to leverage the potential of our products just by ourselves considering our limited resources. Therefore, our business strategy is to market our own products in selected European markets like Germany, Austria, and Switzerland and to use a network of distributors and commercialization partners in other major markets. We have entered into commercial partnerships with some of the most distinguished companies in the clinical diagnostic space through licensing our Septin9 biomarker for CRC and assay technologies to detect Septin9 in blood plasma. We typically participate in the commercial success of our partners through upfront and milestone payments, but most importantly through royalties or profit splits on the sales these partners generate with their diagnostic products and services based on our biomarker and technologies.

Beyond our lead product for CRC detection, we are constantly working on a pipeline of innovative diagnostic tests for other cancer indications. While we already have a commercial tissue-based product as aid in diagnostics for lung cancer (Epi proLung®), we are currently developing a blood-based test based on the SHOX2 biomarker utilized in this product. Tissue-based tests can be used by pathologists and cytologists for the more accurate diagnosis of patients suspected of having lung cancer, but blood tests might be more useful when addressing large populations in the context of screening for the disease or for retesting positive results from patients previously tested positively by imaging methods. We are convinced that a blood-based lung cancer test using the SHOX2 biomarker will open up very attractive business opportunities. The development of such tests will be the main focus of our R&D efforts in 2015.

Besides the early detection and diagnosis of cancer, personalized medicine and companion diagnostics are widely recognized drivers of growth, both in the pharmaceutical and the diagnostics markets. Our experience in developing concepts and biomarkers for drug response prediction represents the hallmark of personalized medicine, and we have repeatedly leveraged our experience and know-how in this field through partnerships with pharmaceutical companies. In these partnerships, we discover and validate drug response biomarkers for our partners and develop high-quality clinical assays with the potential to fuel a future product pipeline of companion diagnostics products.

MANAGEMENT

Epigenomics is managed by a team comprised of industry experts with long-standing experience in the diagnostics industry, with ample science and management expertise, and with the unequivocal entrepreneurial commitment to build a world-leading cancer molecular diagnostics company.

Being a stock corporation under German law, the Company is led by an experienced Executive Board under the oversight of a Supervisory Board elected by our shareholders. Dr. Thomas Taapken was appointed as Chief Executive Officer (CEO) of the Company in October 2012. He joined Epigenomics on April 1, 2011, as Chief Financial Officer (CFO) and took over the CEO position in the following year. In April 2013, the Executive Board was complemented by the appointment of Dr. Uwe Staub as Chief Operating Officer (COO). Dr. Staub joined Epigenomics in November 2008. The Supervisory Board of Epigenomics comprises three members with the required industry experience and expertise. For further details on the current members of the Executive and Supervisory Boards, reference is made to the “Corporate Governance” section of this management report.

Epigenomics operates under a quality management system certified according to ISO 13485 for the design, development, manufacturing and distribution of IVD products. We have repeatedly demonstrated our ability to operate under highest regulatory standards, successfully undergoing audits of our ISO-certified quality management system, including an inspection by the FDA. Our quality systems cover all necessary requirements for development, manufacturing and commercialization of IVD products in regulated market environments around the world.

CORPORATE GOALS

We take a very focused and goal-oriented approach to managing and monitoring operational progress when executing our strategy. The Supervisory Board and the Executive Board of the Company regularly define milestones and deliverables including revenue, operating result and business targets as well as product development, clinical and regulatory milestones against which performance of the Company and its employees is regularly monitored.

In 2014, the most important corporate goal remained to bring the FDA approval process for Epi proColon® to an encouraging end, after all previous steps in our PMA submission process had been successfully completed in the years before. In June 2014, the FDA quite unexpectedly requested data from an additional clinical study (ADMIT) to complete the PMA application. Therefore, the focus of our efforts shifted towards the prompt and successful execution of this study and the main goal was re-defined to set up and initiate ADMIT as quickly as possible after agreement with the FDA on the study design.

In preparation of the next steps towards commercialization of Epi proColon® in North America after the expected approval decision, in the fourth quarter of 2013, we have entered into a long-term commercialization agreement with Polymedco, Inc. (Polymedco), a leading provider of CRC tests in North America. It remains our key corporate goal to introduce Epi proColon® to the U.S. healthcare market together with Polymedco and to achieve reimbursement commitment for this product by the local payor organizations. Despite the delay caused by the FDA's request for additional data, our partner Polymedco also remains highly committed to work with us towards this goal.

Outside of the key U.S. healthcare market, we have made significant progress throughout 2014 in our collaboration with BioChain in China. Our common goal to complete a large clinical validation study and to initiate the regulatory approval process by our partner was successfully completed in April of 2014 with reporting of positive study results and subsequent submission of the application to the Chinese Food and Drug Administration (CFDA). Moreover, the regulatory process in China was brought to a successful completion in December 2014 with the grant of marketing authorization by the CFDA. In addition, we have granted BioChain rights to develop a domestic Chinese version of the Septin9 test in our agreement. We supported BioChain in this effort so far and by now, our partner is already conducting clinical validation trials for such a blood-based test under a BioChain branding. In the months to come, we have set ourselves the goal to actively support BioChain with our knowledge and understanding of the CRC screening market in their product launch and the early commercialization phase.

To become commercially successful worldwide, the inclusion of our test in relevant screening guidelines and the availability of reimbursement by insurance carriers remain the most important critical success factors. Also in 2014, we have made progress to generate the necessary support in the medical and laboratory customer communities and we will maintain our activities towards this goal in the future.

Finally, we also keep providing high-value-added biomarker research services and solutions to customers in the pharmaceutical and life sciences industry. We remain convinced that these efforts and our deep understanding of the field in the area of personalized medicine and companion diagnostics will set us apart from our competitors and establish us as one of the leaders in this emerging area of our industry.

In summary, we strongly focused our strategy on the key value drivers of the Company throughout the reporting year and will continue to do so in the coming years.

PERFORMANCE INDICATORS

Epigenomics' goal is to increase shareholder value by consequently following our mission and strategy. We are using financial and non-financial performance indicators on an ongoing basis to control and monitor the success of our endeavors.

The financial indicators used to control our operations include key financial figures, which are well established and recognized by the international investor community. These include revenue, gross margin, EBIT, EBITDA and operating result or earnings per share. All of these indicators are monitored closely on a monthly basis and are published on a quarterly basis in our mandatory and voluntary financial reports. They are regularly compared against planned and forecasted values as well as against external benchmarks if appropriate. While still being reliant on external funding from investors to support our business operations, our cash flow and our cash consumption are amongst the most important financial indicators and are therefore monitored extremely close and regularly reported.

Non-financial performance indicators that are important in conducting our business are mainly derived from our R&D and commercial activities. The set of indicators comprises e.g. of the number of (granted) patents, sensitivity and specificity numbers for our products as obtained from scientific studies or as well publications of study results in renowned scientific journals. The progress in our current PMA approval process with the FDA, the successful passing of audits of our quality system and reaching yardsticks and milestones in our development activities are further important indicators to measure target achievement and to assist us in guiding internal efforts and external communication. Last but not least, we are monitoring customer satisfaction by indicators like delivery and/or turnaround times, audit observation numbers and complaint rates.

OVERVIEW OF OUR BUSINESS IN 2014

In early 2013, we had filed the PMA application with the FDA for U.S. approval of our blood-based CRC screening test Epi proColon®, which was subsequently accepted and reviewed under priority review status by the FDA throughout 2013 until early 2014. While the main focus of our efforts in 2014 was on the FDA approval process, the approval process with CFDA in China became another main activity drawing resources and major attention in the course of this year.

REGULATORY EVENTS

PMA application for Epi proColon® in the U.S.A.

In March 2014, the Molecular and Clinical Genetics Panel of FDA's Medical Devices Advisory Committee held a meeting in conjunction with the PMA for Epi proColon®. After deliberations, the members of the Medical Devices Advisory Committee voted positively that the benefits of Epi proColon® outweigh the risks for use in patients who meet the eligibility criteria.

In addition to reviewing the Company's clinical data and the performance of the test, the Medical Devices Advisory Committee discussed several questions and issues around the test and finally voted on three questions. First, the Advisory Committee members voted 9 to 0 (with one abstention) and assessed that there is reasonable assurance for safe use of the product in the intended population. Second, the Advisory Committee members were split 5 to 5 in their vote assessing the effectiveness for use of the product in the intended population, with a negative vote from the Panel Chairperson to break the tie. And third, the panel voted on the question of whether for patients who meet the eligibility criteria specified in the proposed intended use, the benefits outweigh the risks for use of Epi proColon®. The Advisory Committee members voted favorably with 5 to 4 (with one abstention), supporting the view that the product's benefits outweigh its risks. While recommendations of the Advisory Committee are not binding, they are usually considered and weigh heavily in FDA's review process.

On June 2, 2014, we announced that we had received a response letter from FDA in relation to our PMA application for Epi proColon®. We were surprised by this letter, as the FDA determined that while the studies performed so far have established the clinical performance characteristics of the test, the PMA application does not yet contain sufficient evidence to warrant an approval for Epi proColon®. This was unexpected and therefore, it was disappointing news for our Company and our investors. However, the FDA provided helpful guidance on how to amend the PMA to make it approvable. The main item stressed in their response letter revolved around the need for additional data demonstrating that the blood-based Epi proColon® test will increase compliance to CRC screening in the intended use population, i.e. in those patients who today do not undergo CRC screening by guideline-recommended methods such as colonoscopy or FIT.

During the second half of 2014, we focused on the design of a study, which would be able to meet the FDA's requirements (the "ADMIT" study). We finally agreed with the agency on a trial to demonstrate that Epi proColon® will increase participation in CRC screening in patients being offered the blood-based test as compared to those being offered a FIT stool-based test. For this purpose, we teamed up with two major U.S. health care systems, Kaiser Permanente and Geisinger Clinic, who actively manage CRC screening programs and who will identify the appropriate patients for the study within their managed patient populations.

ADMIT will be conducted in 420 patients that have been historically non-compliant to CRC screening according to current screening guidelines. Patients will be invited to a clinic visit and – once enrolled into the trial – they will be randomized to either the FIT test to take home to complete and send back or to a blood draw for completion of the Epi proColon® test right in the doctor's office. The goal of the study is to show a significant increase in CRC screening participation by the patients in the Epi proColon® arm of the trial. The study's secondary objectives will comprise a measurement of the number of performed colonoscopies in those patients with positive test results with Epi proColon® or FIT.

Enrollment of the first patients started in December 2014 and we expect that the collection of all samples and their analysis will be completed in the second quarter of 2015.

Regulatory approval for Epi proColon® in China

In December 2014, together with our Chinese partner BioChain, we announced that the CFDA approved Epi proColon® for commercialization in China. The approval was based on a major clinical validation study completed by BioChain in April 2014, which confirmed the previously demonstrated positive clinical performance of Epi proColon®. While detecting 75% of all cancer cases at 97.5% specificity in the Chinese study, this test showed the potential to become an important tool for medical professionals in establishing and expanding CRC detection in this country. The availability of CRC screening based on a blood sample will enable higher patient participation and possibly detection rates of CRC in patients screened. We are convinced that this will help to drastically reduce disease and the associated costs related to late-stage CRC cases. BioChain expects to launch the product within 2015 into the Chinese market through their established distribution channels and has already started the market launch throughout the country. As a first step, pricing and reimbursement levels in China will have to be established.

Already in 2013, we also had agreed to work together with BioChain on the validation of other methylation biomarkers in the cancer field. Epigenomics owns intellectual property around a variety of cancer diagnostic markers for lung, prostate and bladder cancer as well as for other solid tumors. The Company markets a CE-marked product for lung cancer diagnosis based on our proprietary SHOX2 biomarker. BioChain's advanced sample preparation technology is a valuable asset for the clinical validation of our other DNA methylation cancer markers. Should any of the two companies develop any future products, BioChain will have the option to acquire commercialization rights for the Chinese market, while we will retain the rights for the rest of the world.

Regulatory approval for Epi proColon® in Argentina

In March 2014, we also announced together with VSA Alta Complejidad S.A. (VSA), a leading Argentinean pharmaceutical and blood diagnostics company, that VSA has received approval to market Epigenomics' Epi proColon® kit for the blood-based CRC detection in Argentina.

Since 2013, Epigenomics and VSA have worked together, performing extensive pre-approval work to meet the requirements of ANMAT, the diagnostic testing regulatory control body of Argentina. This made Argentina the first country outside Europe to have granted approval for our test.

STUDIES AND INTELLECTUAL PROPERTY

In January 2014, we were granted key patents related to Epi proColon® in the U.S.A. and in China. First, we received a patent for the method used in Epi proColon® to analyze Septin9 DNA methylation by the United States Patent and Trademark Office (USPTO). This method patent extends the IP coverage for Epi proColon® beyond the existing protection for the Septin9 biomarker used for CRC cancer screening. In May 2014, we were granted a patent for our Septin9 DNA methylation biomarker (mSEPT9) for use in CRC diagnosis by the Chinese Patent and Trademark Office. We were granted the corresponding biomarker patents for the U.S.A. by the USPTO already in 2010 and for Europe by the European Patent Office (EPO) in 2008.

In March 2014, we announced findings from a case control study executed in different centers in the Czech Republic where alternative solutions to improve CRC detection are currently evaluated. In this study, Epi proColon® 2.0 CE showed a sensitivity of 92% and a specificity of 97%. These results were comparable with the results achieved in our European CE marking study reported in 2011, which followed the same principle of data interpretation (80% sensitivity and 97–99% specificity).

In April 2014, BioChain had completed its major clinical validation study to validate Epi proColon® for the early detection of CRC with the goal to gain market approval for the test in China sooner than anticipated. The clinical validation study was designed to evaluate the clinical performance of Epi proColon® for the detection of CRC and was part of the required data package to seek regulatory approval in China. It was the first clinical study to demonstrate the clinical utility of the Septin9 assay in China. More than 1,000 patients were tested in China by using our Epi proColon® 2.0 CE assay. Epi proColon® detected 74.8% of the cancer cases (sensitivity) and correctly identified 97.4% of the patients free of disease (specificity). The results were as well in line with those achieved in our European CE marking study reported in 2011.

In June 2014, we announced that results from our U.S. clinical validation study for Epi proColon® as well as from our head-to-head comparative study with FIT had been published in renowned scientific journals. The clinical validation study was designed to measure the clinical performance of Epi proColon® for the detection of CRC in comparison to colonoscopy. The data published in "Clinical Chemistry" elaborates on top-line data announced in December 2011. In addition, a peer-reviewed publication, discussing the top-line data of the comparative study, was published online on PLOS ONE *(www.plosone.org)*. The published data elaborates on the top-line data announced in December 2012. These publications are of particular importance as payors, policymakers, medical societies, and guideline bodies will rely on this information in their decision-making process.

More details on the aforementioned studies can be found in the "Research and Development" section of this management report.

CORPORATE ANNOUNCEMENTS

BioChain to increase its investment in Epigenomics

In October 2014, we raised EUR 4.2 million in a share capital increase, when BioChain subscribed a total of 1,351,089 Epigenomics shares which were issued under exclusion of the statutory subscription right of the existing shareholders. This investment reinforced and deepened the joint commitment of both companies towards the successful launch of Epi proColon® throughout major markets and marked a clear evidence of the shared belief in our future success. The secured funds were very important for us to extend our cash reach for the execution of important final steps towards the approval and commercialization for Epi proColon® in the U.S.A. and in China and follows BioChain's initial investment into Epigenomics in 2013. Meanwhile, BioChain has become a major shareholder in Epigenomics, holding close to 10% of the Company.

OTCQX trading approval

In January 2014, our American Depositary Receipts (ADRs) were approved for trading on the U.S. platform OTCQX International, a segment of the OTCQX marketplace reserved for high-quality non-U.S. companies that are listed on a qualified international exchange, publish quarterly management reports and provide comparable disclosures to public markets in their home country that are comparable to those mandated by U.S. standards.

Conversion into registered shares

In September 2014, we converted our bearer shares into registered shares at a ratio of 1:1. The conversion, which had been resolved by the Annual General Shareholders' Meeting on June 3, 2014, was meant to facilitate direct communication with shareholders and increase transparency of the shareholder structure.

FINANCIAL RESULTS

Overview of the calendar quarters in 2014:

EUR thousand (except where indicated)	Q1	Q2	Q3	Q4	FY 2014
Revenue	407	405	284	411	**1,507**
Earnings before interest and taxes	-2,000	-1,616	-1,773	-2,994	**-8,383**
Earnings per share (in EUR)	-0.17	-0.13	-0.14	-0.21	**-0.65**
Net cash flow	391	-1,669	-2,790	3,576	**-492**
Cash consumption	-1,475	-1,665	-2,807	-2,148	**-8,095**
Total liquidity at end of period	8,422	6,754	3,887	7,495	**7,495**

The financial results of 2014 suffered from the postponement of the FDA's final approval decision for Epi proColon® as our expectations for this year were based on the assumption of a positive approval decision for our test around the mid of the reporting year and a subsequent start of the U.S. commercialization activities soon thereafter. Instead, we had to spent additional time and resources on the ADMIT study from mid of 2014 onwards to meet the agency's requirements.

On the one hand, this unforeseeable delay hampered a growth in revenue as our lab customers in the U.S.A. did not undertake significant efforts in 2014 to further promote their laboratory-developed tests (LDT) based on our Septin9 marker while waiting for the availability of our test kits for commercialization. On the other hand, it put more pressure on our cost side, so that our net loss in the reporting year widened compared to 2013. We ended the reporting year with total revenue of EUR 1.5 million (2013: EUR 1.6 million) and a net loss of EUR 8.9 million (2013: EUR 7.4 million).

Against this background, the cash consumption in 2014 of EUR 8.1 million also slightly exceeded our projections from the beginning of the year. Nevertheless, our year-end liquidity (comprised of cash, cash equivalents and securities available-for-sale) of EUR 7.5 million at December 31, 2014, was only EUR 0.5 million lower than twelve months ago, due to a successful capital increase in October 2014 and a number of bond conversions as compensation to the cash utilization for operating and investing activities in the reporting year. Gross inflows from financing in the reporting year of EUR 8.0 million (2013: EUR 12.5 million) were very encouraging under these conditions and must be seen as an indicator for the ongoing belief of our investor base in the attractiveness of our business model.

The capital increase and the bond conversions also helped to reinforce our equity capital which decreased only by EUR 0.4 million to a total of EUR 6.1 million as of December 31, 2014 (Dec 31, 2013: EUR 6.5 million), in spite of the aforementioned net loss for the reporting year. Equity ratio was down by four percentage points to 54% at the balance sheet date (Dec 31, 2013: 58%).

In conclusion, the financial condition of our Company did not significantly weaken in the course of 2014 although our commercialization plans were delayed by nearly one year due to the still not issued approval in the U.S.A..

OUR SHARE

As previously announced and approved by our Annual General Shareholders' Meeting in June 2014, our former non-par value bearer shares were converted into registered non-par value shares, effective September 22, 2014. As a consequence, the ISIN of our shares has changed to DE000A11QW50 and the German security code number (WKN) has changed to A11QW5. Our ticker symbol (ECX) at the Frankfurt Stock Exchange remained unchanged.

Market data (XETRA/Frankfurt)	Dec 31, 2013	March 31, 2014	June 30, 2014	Sept 30, 2014	Dec 31, 2014
Number of shares outstanding	13,082,892	13,510,892	13,510,892	13,517,558	**15,480,422**
Closing price (in EUR)	6.12	5.40	3.47	3.73	**5.10**
Market capitalization (in EUR)	80,067,299	72,958,817	46,882,795	50,379,939	**78,950,152**
	Q4 2013	**Q1 2014**	**Q2 2014**	**Q3 2014**	**Q4 2014**
Average daily trading volume (units)	87,769	112,069	118,516	24,864	**58,005**
Highest price (in EUR)	7.72	8.25	7.14	3.89	**5.57**
Lowest price (in EUR)	3.75	5.18	3.39	3.06	**3.08**

On XETRA, Epigenomics' share price closed 2013 at EUR 6.12 (XETRA). While the markets waited for the meeting of the FDA's "Medical Devices Advisory Committee" on Epi proColon®, the share price peaked at EUR 8.25 on March 20, 2014, in expectation of encouraging news from the meeting. The outcome of that meeting was generally disappointing for the Company and its investors. Hence, the share price trended down over the following weeks and finally reached a temporary low of EUR 4.98 by mid April. Subsequently, positive expectations regarding the FDA's final approval decision lifted our share price up again to a level between EUR 6.00 and EUR 7.00 in May. As the FDA postponed its final decision by requesting another study, the share price took a downswing below EUR 4.00 and even tested the EUR 3.00 mark in August.

For the remainder of the year, the share price oscillated in a range between that level and EUR 5.50, trending towards the higher end of the range after the successful completion of a capital increase subscribed by BioChain in October 2014. The share closed at EUR 5.10 on December 31, 2014. Considering our capital increase in October and new shares issued from the conversion of convertible notes throughout the year, the market capitalization of Epigenomics amounted to EUR 79 million at the end of 2014, nearly unchanged to our valuation at the beginning of the year (EUR 80 million).

OVERALL ASSESSMENT OF THE BUSINESS YEAR 2014

Despite the negative impact due to the still outstanding approval decision for Epi proColon® by the FDA, our overall business situation in 2014 has been generally favorable due to the approval issued by the CFDA and our successfully closed financing activities.

COMMERCIALIZATION AND BUSINESS DEVELOPMENT

Having set a clear focus on our commercial activities around Epi proColon® in the U.S.A., we made good progress in the pre-commercialization efforts around our lead product. With the help of our U.S. commercialization partner Polymedco, we are in an active dialog with potential future laboratory customers, key opinion leaders and payors.

Since 2013, Septin9 testing had been included in the printed Current Procedural Terminology (CPT) with a dedicated reimbursement code (CPT 81401) for general distribution to healthcare providers. Moreover, recent decisions by the Centers for Medicare and Medicaid Services (CMS) have confirmed a possible reimbursement level for a DNA methylation test like Septin9 at around USD 140. In our opinion, this level will be very attractive for clinical laboratories in the U.S.A. to offer Septin9 testing. At the same time, it offers an attractive business opportunity to us and to our partner Polymedco, jointly expecting to be able to sell the product to laboratories at a price of around USD 70–90 per test.

In the past, we had granted licenses to CLIA[1]-certified laboratories in North America to enable them to offer their own Septin9 LDTs as a service and an aid in the diagnosis of CRC. These partners include Quest and ARUP in the U.S.A. and Gamma Dynacare in Canada. While we are currently still receiving royalty payments on their sales, we are already deeply involved in discussions with these laboratories to turn them into customers of our FDA-approved Epi proColon® test once it becomes commercially available.

The European market for IVD products is highly fragmented and dominated by local effects in each of the countries. Moreover, in most European countries, CRC screening is organized on a governmental level and thus, the barriers to entry into such systems are typically very high. Self-payer segments are small in most markets and need to be addressed individually on the level of physicians and patients. Therefore, for the time being, we only have a very limited focus on European commercialization of Epi proColon®. However, we are still seeing a slow but steady increase in the numbers of tests sold throughout the countries in which we market the product ourselves or through distributors. We would expect increasing interest by physicians and patients in the future, based on the recent regulatory approval in China and even more so on a positive decision by the FDA.

In brief, we are making solid progress on the commercial side. Together with our partners, we share the view that providing Septin9 testing will help physicians to improve patient health outcomes and decrease the rising costs associated with CRC treatment. With this in mind, we continue to build support for Epi proColon® in the U.S.A., in China and throughout European markets.

RESEARCH AND DEVELOPMENT (R&D)

In light of our focused strategy, activities of our R&D organization were geared towards advancing our key products in their development and assisting in their commercial establishment. Throughout 2014, we announced several results from studies conducted worldwide around our blood-based Septin9 assay. Furthermore, we maintained our focus on the support of the ongoing regulatory processes in 2014 and strengthened our activities towards the development of next-generation products for CRC and lung cancer indications.

CZECH REPUBLIC: RESULTS OF A STUDY ON PATIENT ACCEPTANCE OF EPI PROCOLON® VERSUS OTHER SCREENING METHODS

In March 2014, we published findings from a study executed in different centers in the Czech Republic. According to the study, blood-based Septin9 testing could be an attractive screening alternative to established methods for a population that would otherwise be non-compliant to colorectal cancer screening. The compliance with a nationwide two-phase screening program based on the detection of occult blood in stool (FOBT) in the asymptomatic population above 50 years is only 22.7%. Therefore, alternative solutions to improve CRC detection are currently evaluated in the Czech Republic. The study was conducted by MU Dr. Zdeněk Beneš, CSc., Head of the Medical Department of Thomayer Hospital, Prague, Czech Republic.

In this study comprising 57 patients, Epi proColon® 2.0 CE showed a sensitivity of 92% and a specificity of 97%. These results are in line with the results achieved in the CE marking study reported in 2011.

[1] *CLIA = Clinical Laboratory Improvement Amendments*

CHINA: BIOCHAIN'S MARKET APPROVAL STUDY CONFIRMS EUROPEAN PERFORMANCE DATA OF EPI PROCOLON®

In April 2014, we announced that BioChain had completed its major clinical validation study to validate Epi proColon® for the early detection of CRC with the goal to gain market approval for the test in China.

From November 2013 to March 2014, a total of 1,074 patients at three top-ranking hospitals in China were tested by using Epigenomics' Epi proColon® 2.0 CE assay. Epi proColon® detected 74.8% of the cancer cases (sensitivity) and correctly identified 97.4% of the patients free of disease (specificity). The tested study cohort included 300 cancer cases in stages I to IV. The results were in line with those achieved in Epigenomics' European CE marking study reported in 2011.

GERMANY: ADHERENCE STUDY DEMONSTRATES IMPROVEMENT IN CRC SCREENING COMPLIANCE BY EPI PROCOLON®

In October 2014, we announced the publication of the results of a trial assessing the impact of a non-invasive blood-based test on patient adherence to CRC screening. The study was conducted by Dr. Andreas Adler and his team at the Charité in Berlin, Germany.

The study was designed to assess the willingness of patients to undergo CRC screening and the impact of offering a blood-based test (Epi proColon® 2.0 CE) as a screening alternative to stool-based tests after refusing colonoscopy. In this study, 63 of 172 subjects (37%) were compliant to screening colonoscopy, one of the currently recommended methods for routine screening. Of the 109 subjects (63%) who refused colonoscopy screening, 90 (83%) selected a Septin9 blood test, 16 (15%) had a stool-based test, and 3 (3%) refused any testing.

SEPTIN9: DEVELOPMENT OF AUTOMATION SOLUTIONS AND EVALUATION OF PRODUCT IMPROVEMENTS

The focus of the internal R&D projects in 2014 encompassed the completion of the development of an automated solution for Epi proColon® testing. While we currently do not aim to be directly involved in the distribution or sale of liquid handling robots for this purpose, one of the feedbacks received from customers in the field was the need for an automation solution compatible with the workflow of the clinical laboratories. Therefore, we had previously embarked on the development of a third-party solution which we have validated and that we can recommend to our customers. In 2014, the efforts around this automation program were successfully completed and by now we already have first customers making use of this solution.

At the same time, we remain constantly monitoring the competitive landscape of emerging technologies and product candidates for blood-based CRC testing. In the course of the year, our R&D group was involved in a variety of technology assessment projects in collaborations with companies and numerous academic institutions. The aim of these projects was to evaluate if there would be any possibility to increase the clinical performance of the test, reduce its cost or provide additional benefits like better detection of precancerous lesions. However, so far, none of the projects evaluated resulted in significant improvements over the current performance of our Septin9 test. This has to be seen as positive in light of keeping possible competition away from the market, but at the same time, we will keep searching for ways to improve our current product.

RESEARCH WORK ON BLOOD-BASED LUNG CANCER PRODUCTS

Our CE-marked lung cancer diagnostic product Epi proLung® has created a remarkable level of interest among clinicians involved in lung cancer testing over the last two to three years. One of the more encouraging aspects of some of the published results of their research has been the proven ability to detect our SHOX2 biomarker in blood samples of patients rather than in bronchial fluid, which is the substrate for the current version of Epi proLung®. In 2014, we have taken first steps towards the development of a blood-based lung cancer product. Prior to committing just the SHOX2 biomarker for such product, we are evaluating the possibilities for a combination of SHOX2 with other proprietary biomarkers in order to increase the test's sensitivity. In parallel to this, we are planning further optimizing steps and intend to complete this development, once all formal and regulatory requirements are finally met. This work is expected to be carried out throughout 2015 and will include having to perform clinical validation studies. Without doubt, lung cancer is one of the most challenging but also least served markets for diagnostic products. Our expertise and the advantage of already having a well working product – Epi proLung® – will prove to be a valuable advantage over the possible competition emerging in this field.

QUALITY MANAGEMENT

We have a well-established comprehensive quality management system for the design, development, manufacturing and distribution of IVD products, compliant with the requirements of 21 CFR 820 and ISO 13485. The 21 Code of Federal Regulations (CFR) 820, Quality System Regulation, covers the U.S.-American current good manufacturing practice requirements for medical device manufacturers. ISO 13485 is an internationally recognized quality management standard developed for medical devices and diagnostics by the International Organization for Standardization (ISO), a worldwide federation of national standards bodies. 21 CFR 820 and ISO 13485 specify requirements for a quality management system, which demonstrates the organization's ability to provide medical devices and diagnostics that consistently meet customer and applicable regulatory requirements. The implementation of a quality management system compliant to 21 CFR 820 and ISO 13485 demonstrates our ongoing commitment to develop safe and effective diagnostic products such as our tests for colorectal and lung cancer.

We are continuously improving our quality management system to remain a solid foundation for regulatory approval of our products on a global basis.

FINANCIALS

RESULTS OF OPERATIONS

At the beginning of the reporting year, we were cautious in our revenue forecast given the uncertainties regarding the potential approval decision for Epi proColon® by the FDA. As no reliable prediction on the timing of the approval and its outcome could be made at that time, we issued guidance to the markets that our revenue in 2014 was expected to be at least at previous year's level but this was narrowly missed. In 2014, our total revenue amounted to EUR 1.5 million – a slight decrease compared to 2013 (EUR 1.6 million). Our product sales in Europe remained in line with our expectations more or less constant on a moderate level. In the U.S.A., we did not enter into any new LDT agreements as the laboratories' interest was clearly headed directly towards our Epi proColon® test kit and our commercial efforts were directed to prepare the market for the launch of Epi proColon®. As a consequence, existing laboratory customers did not increase their marketing activities for the established LDTs. It is worth mentioning, that product sales increased from EUR 0.6 million to EUR 0.8 million year on year, equaling a share in our total revenue of 55.1% compared to 40.9% in 2013. Thus, product revenue has fully met our internal expectations.

The decrease in total revenue compared to previous year was mainly attributable to our licensing business, which could not quite be compensated by a slight growth in R&D income of 8%. Regarding a possible expansion of our licensing business as expressed in our prognosis at the beginning of the year, our expectations have unfortunately not been fulfilled.

In line with our business model and ahead of expected product approval in major markets, certain of our existing licensing agreements, especially regarding the U.S. market, faded out in the reporting year thus reducing the share of licensing income on total revenue to 8.1% from 26.7% a year ago.

Our cost of sales increased from EUR 0.5 million in 2013 to EUR 0.7 million in 2014, deteriorating our gross margin from 69.4% in the previous year to 51.5% in 2014 due to the ongoing shift in the composition of our revenue – a higher percentage of product sales and a less licensing income share. This margin is still characterized by relatively low numbers of units sold and expected to improve with commercial scale-up. Gross profit amounted to EUR 0.8 million in the reporting year (2013: EUR 1.1 million).

Other income in 2014 remained nearly stable compared to previous year at EUR 0.6 million, comprising mainly income from the reversal of provisions (EUR 0.3 million) and from third-party research grants (EUR 0.2 million).

Research and development (R&D) costs of EUR 4.7 million in 2014 increased by EUR 0.3 million compared to 2013 (EUR 4.4 million). With a largely unchanged R&D organization structure, they were mainly driven by our efforts towards the FDA approval and the setup of the ADMIT study. A further factor were increasing costs for the worldwide protection of our intellectual property (IP) but more or less in line with our expectations at the beginning of the year.

Selling, general and administrative (SG&A) costs of EUR 4.9 million in the reporting year increased by EUR 0.4 million compared to the previous year (EUR 4.5 million). Due to the delay in the FDA approval process, the planned ramp-up of our commercialization activities in the U.S.A. has been postponed too, so that the expected additional costs were not yet incurred during the reporting period.

Other expenses amounted to EUR 0.1 million in 2014 (2013: EUR 0.1 million).

Total operating costs increased to EUR 10.4 million in the reporting year – up from EUR 9.5 million in 2013. This increase was driven by non-cash expenses for our phantom stock programs on the one hand and by the aforementioned IP costs on the other. Higher costs for materials and consumables can be explained by an increased number of kits in stock at the balance sheet date, which was planned as a preparatory step for the product launches in the U.S.A. and in China. Lastly, additional expenses for external services in relation to the ongoing regulatory process in the U.S.A., in preparation of our planned market activities there and in relation to the relocation of our facilities in the U.S.A. and in Germany also contributed to this increase. The growth in operating costs was included in our financial guidance for 2014.

In the reporting year, operating loss (EBIT) widened from EUR 7.3 million in the previous year to EUR 8.4 million in 2014, slightly more than we had predicted at the beginning of the year. While some costs increased more than forecasted, there were no compensating effects on the income side. Due to non-cash interest expenses for our convertible bond program in the amount of EUR 0.5 million, our net loss finally amounted to EUR 8.9 million in 2014 (2013: EUR 7.4 million) and therefore exceeded the range communicated in our 2014 guidance (EUR 7.5 million to EUR 8.5 million). This equals a loss per share of EUR 0.65 (2013: EUR 0.62).

FINANCIAL POSITION AND CASH FLOW

Our cash consumption amounted to EUR 8.1 million in 2014, up from EUR 6.5 million in 2013 and slightly above the upper end of our prognosis range a year before. Due to cash inflows from financing activities in the amount of EUR 7.6 million over the same timeframe (2013: EUR 11.5 million), net cash flow added up to EUR -0.5 million (2013: EUR 5.0 million). Cash consumption during the reporting year included capital expenditures of EUR 0.8 million in connection with our new facilities in Berlin, which can be partly subsidized by up to 35% of the acquisition costs through a government grant over the following years, provided that the applicable grant requirements are met.

Cash flow from financing activities comprised of the gross proceeds from our share capital increase in October 2014 (EUR 4.2 million), a late EUR 0.2 million in proceeds from the issuance of convertible notes in 2013 and EUR 3.6 million in proceeds from the conversion of seven of these notes throughout the reporting year. Outflows from financing activities in the amount of EUR 0.4 million were related to the costs for the convertible notes issuance.

As a consequence of these financing activities, our liquidity at year-end 2014 amounted to EUR 7.5 million (comprising of cash and cash equivalents of EUR 6.7 million and available-for-sale securities of EUR 0.8 million) and was therefore only EUR 0.5 million below the EUR 8.0 million at the beginning of the year. The 18 remaining outstanding convertible notes have the potential to bring another EUR 9.4 million in cash into the Company in 2015 upon their conversion and before their maturity at the end of the year. Nevertheless, in order to redeem these notes in a repayment scenario, we would have to repay an amount of EUR 1.9 million to the bondholders before the end of 2015.

NET ASSET POSITION

Due to our ongoing losses from operations and to financial debt raised by the issuance of convertible notes, the equity ratio of the Group decreased to 54.0% at December 31, 2014, down from 58.3% at the beginning of the reporting period. Accumulated losses (including the net loss of 2014) amounted to EUR 42.7 million. Total equity was reduced year on year from EUR 6.5 million to EUR 6.1 million at the balance sheet date.

Total liabilities amounted to EUR 5.2 million at the balance sheet date (Dec 31, 2013: EUR 4.6 million), with EUR 1.4 million in non-current provisions included, mainly attributable to the issuance of phantom stock rights to our staff and management (Dec 31, 2013: EUR 0.5 million). Current liabilities of EUR 3.8 million included 18 convertible notes at their repayment amount of EUR 1.9 million. Current provisions decreased from EUR 0.6 million at the beginning of the year to EUR 0.4 million at year-end.

Total current assets increased slightly year on year by EUR 0.1 million to EUR 9.0 million at the balance sheet date (Dec 31, 2013: EUR 8.8 million). While our liquidity at year-end 2014 was lower by EUR 0.5 million compared to the beginning of the year, the increase in inventories compensated nearly in full for this decrease. Finally, non-current assets increased slightly from EUR 2.2 million at the beginning of 2014 to EUR 2.4 million at the balance sheet date. Tangible assets rose from EUR 0.2 million at December 31, 2013, to EUR 1.0 million at December 31, 2014, almost completely due to the capital expenditures incurred in connection with the relocation to our new facilities in Berlin.

EMPLOYEES

Epigenomics employed an average of 37 employees throughout 2014 (2013: 34). While as of December 31, 2013, we had 30 employees in Berlin and four in the U.S.A., in 2014, we saw an increase to 32 employees in Berlin and to five in Seattle, WA, and Germantown, MD, at the end of the reporting year. After closing down our operating activities in Seattle during 2013, we kept only a small team of experts in order to prepare the commercialization of Epi proColon® in North America following the expected approval decision by the FDA. Our new location in Germantown, MD, on the U.S. East Coast will be expanded stepwise over the months to come, to further support our joint activities with Polymedco regarding the market preparation and market entry for our CRC test in the U.S.A. and to fulfill our commitment towards post-approval studies.

The number of 37 employees as of year-end 2014 comprised 21 employees across the areas of research, product development, IP, regulatory affairs, quality assurance and manufacturing. Their activities are reported as R&D costs in our financial statements. The remaining 16 employees reported as selling, general and administrative functions are active in the areas of business and commercial development, customer and technical service, accounting, finance, legal, HR, IT, investor relations as well as general management.

Overall personnel costs in 2014 totaled EUR 4.1 million, a 10.5% increase compared to 2013 (EUR 3.7 million). The increase was mainly due to higher costs for issued phantom stock rights (EUR 0.9 million in 2014 vs. EUR 0.6 million in 2013) and partly due to the 9% higher average number of employees compared to the previous year. In September 2014, we launched a new phantom stock program as incentive scheme for our employees and have issued a significant number of rights from this program to our management and staff. The exercise price of the rights was set at EUR 3.23 per share for all rights issued in the reporting year. These newly issued phantom stock rights will be settled in cash based upon reaching the exercise conditions as stipulated in the program but will not be exercisable before September 2017. We deem such long-term phantom stock programs as a key instrument to align employees' and management's interests with the company goals as well as a motivational instrument for our staff. Details of this program and programs from previous years can be found in the notes to our consolidated financial statements for 2014.

SUPPLEMENTARY REPORT

After the end of the reporting year, no events occurred which have a significant influence on the earnings, financial or net asset position of the Company.

OPPORTUNITIES AND RISKS

OPPORTUNITIES AND RISK MANAGEMENT SYSTEM

Epigenomics is a globally operating cancer molecular diagnostics company and as such subject to many industry- and company-specific opportunities and risks. In line with the German Corporation Sector Supervision and Transparency Act (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich – KonTraG), Epigenomics has an established, comprehensive and effective system to identify early, assess, communicate and manage opportunities and risks across all of its functions and operations. The underlying principles and guidelines have been documented in a Group-wide "Risk Management Policy". The goal of this policy and all related instruments is to identify risks systematically at the earliest possible stage, estimate their likelihood of occurrence as well as potential qualitative and quantitative impact, and design and implement effective countermeasures. The risk management has been regularly discussed and is being developed further at the operational level, the senior management level and at the Executive Board and Supervisory Board levels. A core principle is transparency of risks and opportunities across all functions and businesses we are engaged in, interactive evaluation of these and a culture of seizing opportunities and accepting risks as integral part of doing business in cancer molecular diagnostics, but doing so responsibly and striving for an optimal balance between opportunities and risks.

Every risk has a clearly identified risk owner whose responsibility it is to continuously monitor and control risks as well as manage the implementation of any countermeasures. At quarterly intervals, these risk owners report to the corporate risk manager who in turn communicates the risks to the Executive Board and the latter to the Supervisory Board. In case of any material risk, this risk is immediately brought to the attention of the corporate risk manager and discussed at the appropriate board levels. Important risks and the risk management system itself have also been discussed in broader management groups as well as between the Company's auditor and the Supervisory Board throughout the year.

Hence, our management structure, our organizational forums for identifying and assessing opportunities and risks, the monthly internal and external reporting as well as our controlling systems all form an integral part of the overall risk management system in a standardized fashion across all functions and locations. All of these tools are regularly monitored for effectiveness and optimized as well as reviewed by our auditor and the Supervisory Board.

Beside the opportunities that our business offers, there are a number of important risks Epigenomics is faced with, which individually or in combination could severely impact our revenue, earnings and financial situation as well as our share price. The main opportunities and risks are described below.

BUSINESS-RELATED OPPORTUNITIES AND RISKS

Epigenomics offers two IVD products, the CRC screening test Epi proColon® and the lung cancer confirmatory test Epi proLung® as CE-marked products in certain markets. However, product revenue so far has been lower than originally expected. Following our decision to focus the organization and its commercial activities to key markets for our lead product Epi proColon®, the U.S.A. and China, regulatory approvals in these countries are most important for us to be able to generate revenue from product sales in conjunction with our partners and licensing agreements with third parties.

Beyond expected U.S. market approval, our ability to grow revenue from our products will depend, among other factors, on the successful marketing and commercialization of our tests with key stakeholders in the healthcare industry. In 2013, we have entered into a commercial partnership with Polymedco, a well-established and experienced company for the commercialization of diagnostic tests in North America. This agreement gives us access to already existing sales and marketing channels, which we would have to build up on our own without this partnership. Therefore, this collaboration can be seen as a strategy of reducing the risks connected with an independent market development from scratch. Nevertheless, even with such an experienced partner, there are still risks remaining with regard to the commercialization. In the end, we have to rely on our abilities to create sufficient customer acceptance for our product as soon as possible. At this level, we not only have to address the screening population itself, but as well have to generate support in the medical and laboratory customer communities in parallel. To that effect, we extended our network in the medical expert community over the last years, in order to gain support for our product with key opinion leaders in the field. But of course it is not given, that all of the involved can be convinced of the advantages of a blood-based early detection test.

An important element in being commercially successful is the availability of reimbursement for Septin9 testing by insurance carriers. Septin9 testing is now explicitly included in the CPT coding document issued by the American Medical Association and implemented in 2013 with its own code for possible future reimbursement. Moreover, the CMS has recently approved payment for comparable DNA methylation tests at a level of USD 140. This is an additional encouraging signal towards the future availability of reimbursement for our test. Nevertheless, there is still a risk that despite the inclusion of Septin9 in the CPT and recent decisions by CMS, major payors in the healthcare system might refuse reimbursement of the test in the U.S.A.. The situation in other large markets like China is essentially similar, where favorable reimbursement for testing services in CRC will drive the commercial adoption of our products.

Considering the fragmented reimbursement landscape in Europe and the lack of broad positive reimbursement availability, the commercial acceptance of our main product in the different European markets will remain moderate in the foreseeable future. However, any positive reimbursement decision in any European country poses a significant opportunity to the commercial success of the product in such market. At this point, though, we have no indication of ongoing reimbursement discussions for products like ours in any of the major European countries on a broader scale.

According to our business model, we are partly dependent on large diagnostic companies and reference laboratories to develop, commercialize, sell and distribute our products and licensed products based on our biomarkers and technologies. To ensure that our partners devote their best efforts to commercialize these licensed products, we will continue to support them with all the expertise and know-how needed in order to see them succeed in the market. Our dependence from the commercial success of our partners remains a risk factor, especially as strategic decisions of our partners may lead to a change in their focus areas, which can only be mitigated by diversification of our partner base.

In our efforts to be able to sell our products – either directly or through partners – into the laboratory market in the U.S.A. and other countries, we have established relationships with contract manufacturing organizations and vendors of specialized reagents to secure adequate supply of our product at any time. The ability of our manufacturing partners to provide us with sufficient quantities of product at quality levels mandated by regulatory authorities poses a possible risk to the Company. A failure by any of these partners or product vendors could lead to our inability to supply product to the market and thus negatively impact our ability to generate revenue. In order to mitigate this risk, we work with highly capable companies in this field, with ample experience and track record in providing high-quality products to diagnostic companies.

In most markets, the performance of the Epi proColon® test is restricted to certain instruments specifically detailed in our regulatory filings. We therefore rely on the availability of these instruments to laboratory customers who would buy the test from our partners or us directly. Any changes in the offerings of these laboratory instrument manufacturers might limit the ability of our customers to order the test from us. This again would pose a risk for us not being able to generate revenue and thus negatively impact our financial situation. To mitigate this risk, we are constantly observing the space, are in dialog with instrument manufacturers and remain prepared to validate our diagnostic products on other instrumentation platforms in order to be able to react to a changing environment with respect to instruments being sold and established at our customers' laboratories.

In the absence of an FDA-approved product in the U.S.A. at this point in time, we have also entered into licensing agreements with selected reference laboratories in North America, which have introduced their own versions of Septin9-based LDTs in the U.S. market. Since 2011, Quest intensively promoted its LDT (ColoVantage™) for aiding the detection of CRC in the U.S.A., demonstrating encouraging market adoption as showed in numbers of tests sold. Our partner ARUP, which also markets an LDT product based on our Septin9 technology in the U.S.A., has been very active in providing additional scientific and commercial proof of its utility in the aid of detecting CRC. Our ability to receive royalty income from these relationships nevertheless depends on our LDT partners' ability to secure adequate reimbursement for their test offerings. Changes in the regulatory environment and uncertainties in the reimbursement landscape pose an inherent risk to the royalty income we might be able to achieve. Furthermore, we do expect that due to contractual agreements with these partners and regulatory requirements, these partners would convert their product offerings from self-developed LDTs into commercially available tests like Epi proColon®, once these have been approved by the FDA. There is a remaining risk that such conversion might not occur in a timely manner or even not at all, which would limit our ability to fully capture the economic benefit of our technology given that these LDT license agreements are not as attractive as the ability to directly sell our products to these laboratory customers.

The CRC screening field has seen intensive competition over the past years. Some competitors have made progress in developing other non-invasive CRC screening tests. It is important that our partners and we defend the established lead in terms of clinical validation with the only prospectively validated CRC blood test that is today available as an IVD test kit.

Epigenomics' future success partly relies on the experience and the know-how of the management and personnel, which represents a decisive competitive advantage of the Company. Our ability to retain the current level of expertise through key employees in the Company and to be able to recruit such expertise as it might become necessary remains a critical success factor and might have an effect on the future results of operations and financial condition. The management has implemented a retention plan with the goal to secure the ongoing commitment of key employees.

IP-RELATED OPPORTUNITIES AND RISKS

Our business relies heavily on commercializing our intellectual property in the form of know-how, licenses to third-party patents and own patent applications. Therefore, any negative impact on scope, duration, depth and breadth of each single claim granted, on regional coverage, competing IP that we could depend on, difficulties in enforcing the protection, inadvertently infringing other IP, preventing others from infringing our IP, our inability to in-license key IP etc. would negatively impact our cost base, our ability to compete as well as to commercialize our products and to enter into partnerships, our revenue and ultimately our earnings and overall commercial success.

In light of this, we face the possible risk of a challenge of the validity, ownership or enforceability of our patents in court. It may happen that a competitor successfully challenges our patents or that a challenge will result in limiting the coverage of our patents. As a result, we may lose important patent protection relating to our technologies and we could lose our ability to prevent others from utilizing these technologies without compensating us. Litigation itself could result in substantial costs, a delay in commercialization of our products and divert our management's attention and resources.

Since, over the last years, we have moved our business from only developing new products to also marketing and selling our existing products launched in Europe, patent protection is now even more important to prevent competitors from launching competitive products based on our biomarkers. To that end, we have conducted extensive freedom to operate analyses also for our future U.S. product, resulting in satisfactory results, at least for the time being. Further freedom to operate analyses will be conducted as soon as new products or changes to existing products are planned and such analyses become appropriate. As a precautionary measure, we constantly monitor the status of patent applications deemed to be relevant and work closely with our IP lawyers to ensure the best possible protection of our IP rights in light of ongoing developments in this field.

We consider the extensive patent protection on our biomarkers and underlying technologies to be a competitive advantage over many of our competitors. While other companies partly rely their businesses on generic technologies or products, we have the distinct advantage of having secured an extensive proprietary intellectual property position, setting us apart from other companies in the field of DNA-based diagnostics. This puts us into a position of being able to commercialize own products while limiting the business risk of competition, even by larger companies in this field.

At the same time, the progress made in expanding our IP portfolio and getting several key patents for cancer testing granted (such as our Septin9, PITX2 and GSTP1 biomarkers) puts Epigenomics in a unique position to provide attractive licensing opportunities for the growing number of commercial players active in DNA methylation. This opportunity has been underscored by numerous licensing deals in the past several years.

OPPORTUNITIES AND RISKS RELATED TO THE REGULATORY ENVIRONMENT

The upcoming FDA decision on the approval of Epi proColon® is both: an opportunity and a risk. Having successfully completed the PMA review process so far and after the positive vote by the FDA's medical advisory panel, we have increased our chances for final approval. However, the outcome of the additional clinical study mandated by the FDA as well as the final decision by the agency remain a risk factor for our business which can hardly be quantified. However, based on the dialog with the FDA over the course of the year, we remain optimistic about the approvability of our product.

The regulatory environment in cancer molecular diagnostics in the U.S.A. is complex and poses high hurdles for new products to enter into the market. While for companies with FDA-approved products this represents an opportunity to protect the innovative nature of their diagnostic products from competition, it also poses a business risk for the market introduction of new products or even existing product improvements. Epigenomics has chosen to apply for a PMA for Epi proColon®, based on requirements by the FDA for cancer screening products. A PMA poses the highest regulatory standard, which makes it time- and resource-consuming to receive approval for commercialization. For the FDA approval of Epi proColon®, we have retained the services of a leading regulatory affairs consulting group in the U.S.A. with a successful track record of guiding companies through the FDA approval process for (cancer) molecular diagnostic products. Having followed this path over the previous years, we have now gained a significant competitive advantage. Any change in the regulatory landscape, which would make it easier for competitors to develop and commercialize LDTs/homebrew assays, which would be able to compete against companies with PMA-approved products, would also pose a risk for our business.

In parallel, there are increasing trends for tightening regulatory standards in the Chinese and European markets. As mentioned for the U.S.A. above, we have always chosen the regulated path to commercialization of our products. Given the high regulatory and quality standards under which we operate, going forward, we consider this approach as a competitive advantage over those companies, who do not or cannot comply with these requirements.

FINANCIAL OPPORTUNITIES AND RISKS

As of December 31, 2014, our available liquidity (cash, cash equivalents and marketable securities) amounted to EUR 7.5 million. Management is aware of the risk to have limited liquid assets to sustain the operations of the business in an appropriate manner. Again in 2014, like in the years before, we have repeatedly demonstrated that additional financial resources are accessible to us, even under difficult conditions. With the current funding and based on our business strategy for the months to come, our cash runway should at least reach into early 2016. But even with a positive FDA approval decision for Epi proColon® shortly after the end of the ADMIT study in the second quarter of 2015 and a U.S. market launch of the test without further delay, it cannot be expected, that we will generate sufficient income from product sales fast enough to reach the cash break-even point before the end of that runway. We have addressed that risk already by closing the agreement with YA Global in August 2013 on a standby convertible bond facility which allows us to secure additional funds on demand of up to EUR 4 million by issuing further notes to this investor. We have further addressed the risk by the issuance of 25 convertible notes at the end of 2013 of which 18 could still be converted by their holders in 2015. Upon a positive FDA decision and an assumed subsequent positive impact on our share price, we expect a conversion of remaining bonds by their holders. Such a conversion could bring us more than EUR 9 million in additional liquidity due to the conversion premium associated with these instruments.

However, the approval decision of the FDA could be delayed, with an extended time of uncertainty for us and the markets. Also, there could be unforeseeable conditions associated to an approval. And finally, we face a remaining risk of a non-approval of Epi proColon® in the U.S.A.. In all of these scenarios, our share price could come under pressure and a conversion of the convertible notes would become unlikely. We then would face the risk that the holders of the notes call for an early redemption of their bonds, which they are entitled to do at any time before the end of 2015. Without any other alternative cash inflows from financing activities before that point in time, our cash runway would not be long enough to reach into 2016 so that our continued existence would be threatened. In such a scenario, while running out of funds, the Company would have to file for insolvency. In order to mitigate the risks attached to the outstanding approval decision, we will continue to evaluate all strategic options including the option to raise additional capital in the markets at any time throughout 2015.

In case of a positive FDA decision and a subsequent market launch of Epi proColon® in the U.S.A., we expect to be able to generate increasing income from product sales, which would help in reducing our operational loss. On the other side, if the demand for our product after its commercial launch is below expectations or reimbursement decisions are delayed or may not be taken in our favor, we would face the risk of further deterioration of our short-term financial position. Under such circumstances, this could result in lower numbers of tests sold and/or in lower than planned prices for the test which consequentially could make us miss our revenue, margin and/or earnings targets.

To avoid a costly setup of an own production site and the maintenance of such a facility and qualified staff to meet the required GMP standards, we are currently not manufacturing the Epi proColon® test kits ourselves, but have outsourced these activities to a contract-manufacturing provider. At the same time, we still do not have large order volumes. Therefore, it has not been economically reasonable for us in the past to have two or more suppliers in a standby mode where we can place manufacturing orders alternatively on short notice. Thus, we were constantly facing the risk of dependence from our contract manufacturer. Ahead of our expected market launch of Epi proColon® in the U.S.A., we are now addressing this risk by implementing the manufacturing processes at alternative suppliers. This investment and the binding of resources is deemed appropriate as a risk mitigation strategy. Nevertheless, alternative suppliers will not be completely set up and qualified from the regulatory point of view over the first months of 2015, maintaining our dependence from the current manufacturer. Additionally, any alternative manufacturers must be approved by the FDA, before they are allowed to manufacture our kits for the U.S. market. This formal amendment of the PMA after market approval could pose a risk of delay in the implementation of alternative manufacturing sources.

Simultaneously, the assembly of our test kits requires specific consumables and materials from audited suppliers of such goods. We cannot easily replace these consumables and materials nor their suppliers in case of delivery or quality problems, since the new vendor would require to be qualified according to regulatory specifications. In case of such a problem, any solution to it would be expensive, afford valuable time and could impede our ability to deliver our products to our customers when needed.

As a global company, headquartered in Germany and reporting in euro, with additional operations in the U.S.A., we are exposed to foreign exchange rate risks, predominantly to the euro/U.S. dollar relation. In the future, our partners' and distributors' net sales generated outside the eurozone and our expected royalties and profit shares may also be subject to exchange rate risks. We monitor these risks on a regular basis and evaluate on a case-by-case basis whether hedging transactions are required to reduce the exposure to this risk. Additionally, it should be mentioned that foreign-currency-related transactions might entail opportunities as well.

We have reduced our portfolio of available-for-sale securities over the last years down to a single remaining position. The historical investment in this remaining position has been made under the Company's investment policy, which was approved by the Supervisory Board. This policy stipulates to open only positions with an "investment grade" rating. Though, such ratings underwent intense critical discussions worldwide over the last years and were challenged regarding their expressiveness. Our security portfolio faces price risks – in the form of interest rate, issuer and market-related impairment risks – and liquidity risks. Under specific market conditions it could be difficult or impossible to liquidate the securities short-term at their fair value – irrespective of a good rating of the issuer. We have not made any investments in securities over the last years and as part of our risk mitigation strategy have exclusively been investing in money market instruments (i.e. demand deposits, daily and time deposits) on euro or U.S. dollar basis to maximize availability of the liquidity. Simultaneously, we are accepting the rather poor returns that could be earned in the money market at the continuously low interest rates. In 2015 and going forward, we continue to maintain as much of our liquid assets in the form of cash and the most secure cash equivalents as possible.

In 2013, we terminated our existing stock option programs and replaced them with phantom stock programs as incentive instruments for our Executive Board members and our staff. If our share price develops positively, the exercise of rights issued from these programs could impact the Company's liquidity significantly, as these programs provide for a cash settlement. In an extreme case, the consequence could already materialize in 2016 by means of a cash outflow of up to EUR 5.9 million if our share price increases to nearly EUR 10,00 and all beneficiaries of our program issued in 2013 exercise their rights completely. To reflect such a case, the Company has of course already made sufficient provisions. However, we also see an opportunity in these programs as they serve as motivational elements for our Executive Board members and our staff in order to meet our common goals.

OTHER OPPORTUNITIES AND RISKS

We continuously monitor all applicable environmental, health and safety, operational as well as other applicable statutory or industrial guidelines and have implemented functions to comply with all of these effectively at each of our business locations. To minimize the potential impact from manifold tax, corporate, employment, competition, IP and other legal frameworks, we base our decision-making and design of our policies and processes on the advice of internal experts and renowned external advisors in each of these areas. Wherever appropriate and indicated, we set aside provisions to cover any potential liability. There are also risks particularly associated with our share price development. Comparatively low levels of liquidity in the stock, very high volatility based on all of the above-described factors, as well as external influences and negative perceptions by others pose a risk of being wrongly assessed by capital markets participants (especially analysts and investors). This could lead to unjustified stock sales by shareholders and to a sharp decline in our share price, which could negatively impact our ability to remain viable as a listed company. At the same time, the volatility in our share price represents an opportunity to continuously find new investors for the Company willing to take the risk of an investment even in more challenging times. In order to seize this opportunity, we are actively in dialog with market participants and shareholders of the Company through our investor relations efforts.

There could potentially be other risks as well as significant opportunities beyond the ones described here that we currently either deem of lesser importance or of which we are not aware of at the time of this annual report.

SUMMARY OF THE OPPORTUNITY AND RISK SITUATION OF THE EPIGENOMICS GROUP

The critical FDA decision on the approval of our lead product Epi proColon® in the U.S.A. is getting closer rapidly which represents both a significant opportunity as well as a risk. Having successfully completed the PMA review process so far and after the positive vote by the FDA's medical advisory panel, we are convinced to have increased our chances for final approval. However, the outcome of the additional clinical study mandated by the FDA as well as the final decision by the agency remain the largest risk factor for our business with potential major impact on the overall course of our business in the future. While this could partially be addressed by initial successes in markets like China, it is yet far from certain that with these markets alone we would be able to compensate for an inability to commercialize our product in the U.S.A., which represents the world's most important single market for diagnostic products.

While the initial commercial success from our LDT partners in North America demonstrates market interest for a product like ours, we are also convinced that widespread adoption of the test in the U.S.A. also hinges on inclusion in relevant screening guidelines and secured reimbursement. Failure to obtain favorable reimbursement for our product as well as lack of market acceptance and penetration in the U.S.A. based on lack of inclusion in medical guidelines or for any other reason would have substantial material impact on our revenue, earnings, financial position and our ability to raise further capital.

Even if we are successful in the above-described process of achieving regulatory approval, guideline inclusion and reimbursement in the U.S.A., we still face a risk that each or all of these steps take longer than anticipated, thus resulting in a slower than expected commercial adoption. In order to compensate for such potential delay in the U.S. market penetration, we would further accelerate the commercial efforts in other countries like China. Based on the medical need prevailing in most countries of the world we are addressing with our products, there are still major untapped commercial opportunities which we still have to seize.

Despite of the funds raised in the capital markets over the last years, as a company with significant commercial challenges and opportunities, we are still constrained in our financial resources. This limits our ability to cope with potential additional hurdles along the regulatory track or in our commercial efforts. Ultimately, we see our ability to access additional capital to reach our commercial goals as an opportunity to face the threatening illiquidity risk. A failure in raising capital to appropriately fund the business operations can ultimately lead to a total loss of value in our stock.

PROGNOSIS REPORT

PLANNED STRATEGIC DIRECTION OF EPIGENOMICS IN THE NEXT TWO YEARS

Over the next two years, we plan to further establish our Company as a late-stage development and commercial operation as well as to create the public perception of Epigenomics as a commercially driven cancer molecular diagnostics company – especially in the U.S.A.. The key success factor will be finally gaining U.S. market approval for Epi proColon® by the FDA. Our operational execution in 2015 will focus heavily on completing the ADMIT study as quickly as possible and on building the U.S. market for our blood-based test together with our partner Polymedco. In 2016, we should be one step further in developing the U.S. market and can benefit from our initially gained experience there in developing further markets. The presence of our test on the market and hopefully its acceptance by physicians, patients, and laboratory customers will be helpful in our planned efforts then to get reimbursement commitments from payors. In doing this, we will not lose sight of the European market, assuming that regulatory approvals in the U.S.A. and in China will help to raise the profile of Epi proColon® there. In order to be more successful in this endeavor, we might resort more on partnerships or alternatively have to invest more into building the internal structures to support this effort. Having a FDA-approved product in our hands, it will certainly be easier to raise interest from our target groups and to generate demand. Alongside these endeavors, we will support BioChain in its commercialization activities in China and its R&D activities towards their development of new tests.

Consequently, following our plans, our R&D activities are concentrated on the current product pipeline in colorectal and lung cancer diseases to develop successive generations of products with even higher performance and line extensions to broaden the scope of our proprietary biomarkers to related clinical applications. In this context, we will continue to develop our second product, Epi proLung®, into a blood-based test too. We aim to maintain our leadership in DNA methylation technologies and to provide selected partners access to our know-how, expertise and IP in this field via licenses and/or services.

The goal remains to further establish Epigenomics as a leading cancer molecular diagnostics company with proprietary products in the markets either directly or through commercial partnerships. Having a foot in the Chinese market while seeing the acceptance of Septin9 testing growing, we strongly believe that once the anticipated FDA approval of Epi proColon® is secured our corporate strategy is coming together and that we will be on the right track to become a commercial revenue-generating company.

EXPECTED ECONOMIC CONDITIONS IN THE NEXT TWO YEARS

We expect overall economic conditions and the capital market environment in Europe to continue to be challenging. Despite the recent worldwide development of the economies, we expect that uncertainty in the capital markets – especially in Europe – could prevail for the near to mid-term future. The geopolitical conditions have deteriorated significantly over the last months and the future economic development is to a large extent dependent on the political conditions. The dramatic decline of the oil prize towards the end of 2014 shows how even "singular" events can have significant effects for markets, companies, countries and organizations resulting in a situation outside from predicted scenarios.

Nevertheless, we also assume that despite any possible setbacks, life sciences companies should still be able to raise equity capital based on solid fundamental performance. It also has to be taken into account that the percentage of GDP spending on healthcare will likely grow even in the developed world (especially in the U.S.A.), while certainly it will increase in emerging growth countries like China. At the same time, this is driving a high level of merger and acquisition activities in our industry, which is predicted to remain or even grow further from the high levels seen in 2014.

With currency exchange rates remaining volatile between the U.S. dollar and the euro and prognoses over the next twelve months anywhere in the range from EUR/USD 1.10 to EUR/USD 1.30, we have decided to lock-in our budget rate for 2015 at EUR/USD 1.24, the exchange rate level at the time of our budget preparation in mid-November 2014.

OUTLOOK ON THE EARNINGS SITUATION

Our business projections for 2015 are based on the approval of Epi proColon® as an IVD diagnostic product in the U.S. market later this year. Nevertheless, since overall likelihood and timing of such approval decision is hardly predictable, our efforts to provide the capital markets with a reliable prognosis on our earnings situation are hampered. In our planning, we assumed that Epi proColon® will generate first revenue in the U.S. market during Q3 2015, even if initially only on a moderate level. Based on our revenue situation so far, it is obvious that even revenue on a moderate level from the world's largest single IVD market will have a noticeable effect on our earnings situation and that again implies, that a delay in the FDA's decision-making process by two or three months could have a significant impact on our earnings projections.

Based on the aforementioned assumptions and associated uncertainties, our revenue estimate for 2015 will be in the range of EUR 3 to 4 million with the bulk of this in the second half of the year. Of course, this growth in revenue versus the 2014 number is almost exclusively driven by the expected product sales in the U.S.A. and in China. Revenue from our LDT partners in the U.S.A. will fade out once our product is approved since we expect these partners to migrate from their own current Septin9-targeted LDT solution to our test kit. That means, that – to reach our revenue target – we also rely on the speed in the adoption of Epi proColon® by our lab customers.

Revenue in 2015 will as well be generated from R&D collaborations, however, on a moderate basis.

A further factor for acceleration of our revenue growth will be the progress to be made by our Chinese partner BioChain in the commercialization of their own Septin9-based IVD product for their home market. As they again depend on the development of the ongoing reimbursement discussions with the Chinese authorities, this is another hardly predictable effect. While we expect the initial portion of this revenue to come to us by direct sale of tests to them, over time, we expect BioChain to be selling more units of the domestically manufactured Septin9 product. This will then shift our revenue from kit sales to a royalty stream.

At the same time, revenue development of our Epi proColon® IVD kit sales in Europe will remain moderate at comparable levels to 2014, as long as we do not secure major agreements with key accounts or achieve far-reaching reimbursement decisions by healthcare insurers. However, we are evaluating to enter into partnerships with strong commercialization partners for parts of the European market or alternatively to selectively increase investments into own sales and marketing. Should we achieve this goal, we are confident that this could have the potential to lift our European sales once we implement such measures.

Our efforts to develop the U.S. market for our lead product will initially burden our operating result. In addition, expenditures in connection with the current ADMIT study and a post-approval study expected to be mandated as part of the FDA approval in the second half of 2015 will be another contributing factor impacting our earnings situation. Reflecting these product launch costs, we expect EBIT for 2015 to be at a lower level than in 2014. A range from EUR -10.0 to -11.0 million is assumed for 2015, under the aforementioned condition of a regulatory approval for Epi proColon® by the FDA around mid-year. Any delay in the approval decision might result in a reduction of our revenue estimate on the one side, which would then be compensated in its impact on the expected loss by lower additional costs on the other.

Going forward, we will need to sponsor a limited number of clinical trials in the next two to three years to drive commercial adoption and to invest in automation development for higher-throughput CRC testing as well as in R&D activities towards next-generation products. Ultimately, these higher costs in comparison to previous years should be contrasted with growing revenue while generating commercial traction for Epi proColon®.

OUTLOOK ON THE FINANCIAL SITUATION

Based on our business plans for 2015, we expect an increase in cash consumption compared to 2014 at a range between EUR 9.5 to 10.5 million. This increase in expenditures will be necessary in order to achieve our ambitious commercial goals. The underlying assumption is an expected FDA approval for Epi proColon® around mid of 2015. This decision will trigger the start of our U.S. market development activities with regard to the commercialization of the test, while some upfront investments will be made ahead. Also, we expect additional expenditures to complete the ADMIT study and to set up a post-approval study upon a positive FDA decision.

In connection with the U.S. commercialization of Epi proColon® we will shift our Company's focus more towards the U.S. market and increase our local presence in 2015. We expect to make investments in connection with this transition – mainly investments into staff and our partnership with Polymedco and last but not least into the U.S. market. Even if marketing approval by the FDA is received in accordance to our expectations, the cash inflows from product sales in the U.S.A. will initially be not sufficient to overcompensate the planned outflows to build the market.

For 2016 and the years to come, cash utilization for operating and investing activities is expected to decrease along with the revenue growth ramping up. We expect such growth predominantly from product sales in North America, in China or from potential new business opportunities. Starting from EUR 7.5 million in liquid assets (cash, cash equivalents and marketable securities) at year-end 2014 plus a remaining inflow potential from convertible notes of EUR 9.4 million, current financial resources are sufficient at this projected cash consumption for 2015 to support the Company's operations beyond 2015. We are convinced, that a positive FDA decision will open up further financing options to us on the capital markets and we are determined to exercise such options in the Company's best interest as the case may be.

However, any delays in the FDA decision after the delivery of our ADMIT study results, any significant restrictions and/or conditions attached to the approval order by the FDA and of course a negative decision could endanger our financial situation rapidly and significantly. The likelihood of a conversion of the convertible notes by their holders also depends on the FDA decision. During this period of uncertainty, we will continue to diligently explore all strategic options available to the Company. These options explicitly include further capital market transactions.

MID-TERM OPPORTUNITIES

Coming from a company history in pioneering DNA methylation technology as well as biomarker discovery and development, the opportunity for breakthrough commercial success in the key markets with our DNA-methylation-based cancer diagnostic products is finally becoming more visible. While we still expect significant investments for R&D and market development in the mid-term, the decreasing development and regulatory risks around our products in our key markets are encouraging facts. The increasing necessity for more early cancer diagnosis tools as a way of fighting the disease create a fertile ground for our business in the medium term.

The products we developed for blood-based CRC screening have matured significantly and are now being introduced for commercialization in the global markets. The potential FDA approval for our Septin9 test Epi proColon® offers a significant near- and mid-term opportunity to address the largest and most attractive global IVD market: the United States of America.

Lung cancer raises many clinical questions implicating huge medical needs for better diagnostics based on molecular tests. Our SHOX2 biomarker as embedded in Epi proLung® represents an opportunity to address such market needs and provides clear benefits to patients and physicians in fighting this dreadful disease. Having further proven the utility of our test, we are now embarking on the development of a blood-based version of the test, which, if successful, will open up very significant market opportunities.

There are clear opportunities beyond CRC and lung cancer testing with other methylation biomarkers developed by Epigenomics. While we do not actively pursue these opportunities today, they do represent further potential partnering and licensing opportunities in the future.

For our shareholders, there is the opportunity to see the enterprise value increase from catalytic events, primarily the market approval of Epi proColon® in the U.S.A. and also additional licensing partnerships or other forms of commercial success.

OVERALL PROGNOSIS FOR THE EPIGENOMICS GROUP

The transformation of Epigenomics into a commercially driven molecular diagnostics company with growing revenue derived from product sales has further advanced in 2014 and will be continued over the coming years. The successful market entry in China and the repeatedly confirmed belief of our strategic partners in Epigenomics provide a tailwind for our business and the possible challenges ahead.

The final FDA approval for Epi proColon® remains the most significant milestone for us in the nearer future and it will definitely be a landmark event for our Company. The future value of the Company and its financial situation are heavily dependent on reaching this milestone and we remain convinced that we will finally achieve this goal. A positive decision of the agency will also certainly shift our business and corporate focus more towards the U.S.A..

In order to be able to protect the continuity of our business operations, sufficient liquidity has to be maintained or secured. We aim to have liquidity to finance at least one year's operations at all times. Currently, we still rely on the capital markets to raise equity and debt financing from time to time and we expect having to make use of this alternative again in the near future. In order to not having to rely exclusively on a capital market financing of our business while remaining in control of the situation, we will continue to evaluate other reasonable strategic options for our further development.

CORPORATE GOVERNANCE

To the Executive Board and the Supervisory Board of Epigenomics AG, corporate governance lies at the heart of responsible and ethical management. A very interactive dialog based on regular communication between the Executive Board and the Supervisory Board throughout 2014 aimed at generating long-term value for our shareholders and is a key element of good corporate governance. Furthermore, openness and transparency in our corporate communications with shareholders, employees, authorities, the general public and other stakeholder groups pose an overarching principle to our approach towards good corporate governance.

We welcome the German Corporate Governance Code (the "Code") and we systematically and regularly monitor compliance with the German Corporate Governance principles making amendments wherever possible to ensure fair and responsible corporate management to the most recent version of the Code.

Epigenomics' corporate governance principles in certain aspects go well beyond legal requirements and recommendations of the German Corporate Governance Code. For example, we have established binding internal guidelines on insider trading and made these part of all employment agreements. Corporate governance compliance matters are overseen by our Manager Legal Affairs, who ensures adherence to the corporate governance principles. The Manager Legal Affairs is in regular dialog with the Executive Board and the Supervisory Board on any compliance-related matters.

While, going forward, we are clearly committed to adhere to the German Corporate Governance Code to the greatest extent possible, there are a few exceptions based on certain Company-specific factors and peculiarities where we chose or had to deviate from the Code.

DECLARATION OF COMPLIANCE 2014 WITH THE GERMAN CORPORATE GOVERNANCE CODE PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

Pursuant to Section 161 of the German Stock Corporation Act (AktG), the Executive Board and the Supervisory Board of Epigenomics AG as a listed company have to explain each year, which recommendations of the German Corporate Governance Code were or were not complied with.

The Executive Board and the Supervisory Board of Epigenomics AG hereby declare that, since the last Declaration of Compliance in October 2013 and until September 30, 2014, Epigenomics AG has complied with the recommendations of the German Government Commission on the German Corporate Governance Code (the "Code") in the version of May 13, 2013, and has since September 30, 2014, complied, and complies, with the recommendations of the Code in the version of June 24, 2014 (published by the Ministry of Justice in the official part of the Federal Gazette on September 10, 2014), in each case with the exceptions set forth below.

Section 4.1.5

When filling managerial positions in the Company, the Executive Board considers company-specific situations and seeks to achieve an appropriate diversity. This applies both to the internationality of the managerial staff and to the appropriate consideration of women. However, it is ultimately in the corporate interest to fill managerial positions with the most suitable male or female candidate. Therefore, in our opinion, sweeping requirements inadequately restrict the Executive Board in its decision on the filling of managerial positions.

Section 4.2.3 Paragraph 5

Until December 2013, not all of the service contracts with Executive Board members of Epigenomics AG included and include severance payment caps in case of a premature extraordinary termination due to a change of control pursuant to Section 4.2.3 paragraph 5. In case of such an extraordinary termination, the payout of the basic compensation for the remaining contractual period was provided. This provision was based on concerns to the effect that an agreement of a severance payment cap would be contradictory to the nature of a service contract for Executive Board members, which is regularly concluded for the term of appointment and could potentially not accommodate sufficiently for the particular circumstances in case of a change of control. Accordingly, we have not complied with the recommendation in Section 4.2.3 paragraph 5 until December 2013 with respect to all service contracts with Executive Board members.

Since January 2014, all service contracts with Executive Board members contain a severance payment cap within the meaning of Section 4.2.3 paragraph 5.

Section 5.1.2 Paragraphs 1 and 2 and Section 5.4.1 Paragraphs 2 and 3

In the past, when filling the positions in its bodies, the Executive Board and the Supervisory Board considered the company-specific situation, and also made allowances for potential conflicts of interest as well as the international activities of the Company through an appropriate diversity of their members as well as the appointment of an adequate number of independent Supervisory Board members. In deviation from the recommendations in Section 5.1.2 paragraph 2 and in Section 5.4.1 paragraph 2, we consider the commitment to institute special age limits for members of the Executive Board and the Supervisory Board as an inadequate limitation of the voting rights of our shareholders. In addition, we are convinced that sweeping requirements for the composition of the Executive Board as requested in Section 5.1.2 paragraph 1 constrain the Supervisory Board inadequately in its selection of suitable members of the Executive Board. The same applies accordingly to the specification of sweeping objectives regarding the composition of the Supervisory Board, as required in Section 5.4.1 paragraph 2 and assumed in Section 5.4.1 paragraph 3. We strive to achieve an appropriate diversity in the Executive Board and the Supervisory Board, especially with respect to the internationality and the participation of women and to ensure that an adequate number of independent Supervisory Board members is elected. However, it is ultimately in the corporate interest to appoint as members of the Executive Board and the Supervisory Board the most suitable male or female candidates. We therefore believe that sweeping requirements constitute an inadequate

limitation of the individual selection of suitable candidates for the Executive Board or the Supervisory Board. Furthermore, a target requirement regarding the composition of the Supervisory Board also inadequately impairs our shareholders' right to elect the Supervisory Board members. Accordingly, we did not and will not comply with these recommendations of the Code.

Section 5.3.1, 5.3.2 and 5.3.3

As a consequence to the reduction of the number of Supervisory Board members from six to three resolved upon in the Annual General Shareholders' Meeting on May 2, 2012, the Supervisory Board considers the formation of committees no longer to be adequate. Committees comprising less than three members and therefore less than the full Supervisory Board could not be delegated powers to take decisions. Therefore, the Supervisory Board has not formed any committees.

Section 5.4.5 Paragraph 1 Sentence 2

The Supervisory Board cannot comply with the recommendation in Section 5.4.5 paragraph 1 sentence 2, that a Supervisory Board member who is a member of the Executive Board of a listed company, shall not accept more than a total of three supervisory board mandates in non-group listed companies or in supervisory bodies of companies with similar requirements. The Supervisory Board considers a corresponding limitation of the number of mandates as not necessary, as long as each Supervisory Board member has sufficient time to pursue the duties of his/her mandates. Accordingly, Epigenomics AG did not and will not comply with the recommendation in Section 5.4.5 paragraph 1 sentence 2, as long as it is ensured that all Supervisory Board members have sufficient time to pursue the duties of their mandates.

Section 5.4.6 Paragraph 1 Sentence 2

As a consequence of the reduction of the number of the Supervisory Board members from six to three which was resolved upon in the Annual General Shareholders' Meeting on May 2, 2012, the Supervisory Board committees no longer exist. Accordingly, a separate compensation for the chairmanship or the mere membership in committees is not provided for in deviation from the recommendation in Section 5.4.6 paragraph 1 sentence 2.

Berlin, October 2014

On behalf of the Supervisory Board

Heino von Prondzynski
(Chairman of the Supervisory Board)

On behalf of the Executive Board

Dr. Thomas Taapken
(CEO/CFO)

Dr. Uwe Staub
(COO)

This statement is also made permanently accessible to the general public in German and English language on the Company's website under *www.epigenomics.com/en/news-investors/investors/corporate-governance.*

DECLARATION OF GOVERNANCE

According to Section 289a of the German Commercial Code (HGB), the Declaration of Governance has been made permanently accessible to the general public in German and English language on Epigenomics AG's website under *www.epigenomics.com/en/news-investors/investors/corporate-governance.*

KEY FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM RELATED TO THE GROUP ACCOUNTING PROCEDURES OF THE COMPANY

The internal control and risk management system (ICR) of Epigenomics has been set up by the Company's Executive Board who also takes responsibility for it. The ICR is not defined as a comprehensive standardized system across the entire enterprise but rather scope of control and intensity are adjusted according to the respective risk. In addition, control options are used at all Company levels and supervision by the management is established. Epigenomics has developed an individual top-down approach for Company-wide controls and supervision including a proof of effectiveness. A flexible setup of the reporting system – supported by established tools and adjusted to the Company's needs – ensures transparency and targeted supervision by the internal control system. Financial and non-financial indicators are taken into account.

The supervision of the ICR takes place continuously by the Supervisory Board and the Executive Board. Apart from truth and fairness of the financial reporting, it also includes the securing of efficiency and cost-effectiveness of the daily business as well as compliance with relevant regulations and internal guidelines. The supervision of the accounting procedures goes hand in hand with the supervision of the ICR.

Within the organization of the Company, there are various departments and employees involved in the setup, the coordination and the supervision of control measures. The risk management function and the controlling as well as quality departments are of major importance here. Due to the limited size of the Group, the Company has not yet established an internal audit function.

Assessment of the adequacy and the effectiveness of the ICR are continuously ensured by discussions with relevant employees, by benchmarking with other organizations and also by way of a regular dialog with the Company's auditor and consultations with the Company's lawyers as required.

Basically, the Epigenomics Group has established the principle of separation of functions as far as reasonable in a commercial organization with a limited number of employees. This principle is supplemented by the four-eyes principle. Neither Executive Board members nor any employees are authorized to represent and sign on behalf of the Company on their own.

For internal routine activities, instructions and regulations are provided if possible. Those instructions and regulations can be found within so-called "standard operating procedures" (SOPs) as well as in guidelines like e.g. an employee's manual, detailed job descriptions, a travel policy or an accounting manual. The guidelines are constantly accessible to all employees of the Company via the intranet. All guidelines are checked continuously and get amended if necessary. Legal advice from experts is taken as needed to ensure conformity of the internal regulations with the applicable legal requirements or regulations.

The Company's controlling system is primarily based on miscellaneous planning, monitoring and reporting tools. Qualitative information derives from a self-developed project documentation database, and quantitative information is processed in all Group entities by Navision™, a widely used enterprise resource planning software. Our accounting and controlling departments provide all relevant controlling information to the Executive Board on a monthly basis. An ongoing education of the team members is ensured.

For internal control purposes, we set up an annual budget usually based on the current long-term strategic business plan of the Company and a corresponding set of goals. The budget is developed bottom-up from all cost centers and R&D projects. All budgets are extensively reviewed internally by the senior management team and the Executive Board, and a final approval of the annual budget by our Supervisory Board is mandatory. Primary focus of our regular internal management reporting lies in comparing actual versus budgeted values for a comprehensive set of metrics. From these, we compile the external quarterly reports. Quarterly reports are usually accompanied by an internal forecast, which provides us with an updated estimate of expected full-year results and performance vis-à-vis target numbers and public guidance. Actual versus budget comparisons of financial performance indicators are also drawn on a regular basis within the framework of the internal reporting system and are reported monthly to the senior management team of the Company. The focus is on cost and liquidity control. Deviations versus budget or historical values are analyzed on a short-term basis and supplemented by a presentation of alternative options. The reporting is supplemented as needed with additional data requested by the Supervisory Board or the Executive Board as well as the controlling team.

Impairment tests on the Company's assets are done on a regular basis according to the appropriate accounting standards or, as the case may be, upon reports of a reasonable suspicion of a possible impairment.

REMUNERATION REPORT

Composition and remuneration of the Executive Board

The Executive Board of Epigenomics AG is responsible for independently managing and running operations, developing and implementing corporate strategy and budgetary planning, appointing and guiding senior management and overseeing general management of the Company. There is a continuous and intensive dialog between the Executive Board and the Supervisory Board and their respective members. In its charter, the Executive Board has been given a clear set of rules and procedures for certain actions and decisions that require Supervisory Board approval.

Dr. Thomas Taapken was the Company's Chief Executive Officer (CEO) and its Chief Financial Officer (CFO) in the reporting year. He joined the Company in April 2011 as its CFO and additionally took over the CEO position in October 2012. The management contract with Dr. Taapken has a term until December 31, 2015. Dr. Uwe Staub, Chief Operating Officer (COO) of the Company, was appointed to the Executive Board from April 1, 2013, on. The management contract with Dr. Staub was renewed in the reporting year and has a term until March 31, 2018.

Total remuneration of the members of the Company's Executive Board is reviewed by the Supervisory Board annually and is compared to national and international benchmarks. Remuneration takes into account the economic and financial situation of the Company as well as size and complexity of international operations and responsibilities. The remuneration package is composed on the one hand of a fixed and a variable component. The variable amount is determined on the basis of a variety of criteria, which are set by the Supervisory Board on a yearly basis, e.g. the achievement of individual performance goals and/or Company performance goals. The current service agreement of Dr. Taapken contains a provision that foresees his bonus payments to be linked to successfully completed financing transactions. For each financing event successfully completed, he is entitled to a bonus of 1.5% of the total amount of net proceeds to the Company, capped at a maximum amount of EUR 400,000 per calendar year.

Apart from the fixed and the variable component, a third remuneration component comprises a long-term performance-based compensation in the form of phantom stock rights (PSRs). Such rights are granted under the Company's phantom stock programs (PSPs), which are described in detail in the notes to the consolidated financial statements for the reporting year. The total individual position of the Executive Board members with regard to these rights is shown in the following table:

All exercise prices (in EUR)	Program	Reporting year	Rights granted	Total rights owned (Dec 31)	Exercise price (weighted avg.)	Vested rights	Exercise price (weighted avg.)
Dr. Thomas Taapken	**PSP 03–15**	**2014**	**0**	**40,000**	**6.32**	**40,000**	**6.32**
		2013	40,000	40,000	6.32	33,333	5.66
	PSP 2013	**2014**	**0**	**110,000**	**1.62**	**22,000**	**1.62**
		2013	110,000	110,000	1.62	0	n/a
	PSP 2014	**2014**	**73,333**	**73,333**	**3.23**	**0**	**n/a**
		2013	0	0	n/a	0	n/a
Total PSRs		**2014**	**73,333**	**223,333**	**2.99**	**62,000**	**4.65**
		2013	150,000	150,000	2.87	33,333	5.66

All exercise prices (in EUR)	Program	Reporting year	Rights granted	Total rights owned (Dec 31)	Exercise price (weighted avg.)	Vested rights	Exercise price (weighted avg.)
Dr. Uwe Staub	**PSP 03–15**	**2014**	**0**	**38,800**	**8.35**	**32,132**	**9.57**
		2013	38,800	38,800	8.35	24,666	11.43
	PSP 2013	**2014**	**20,000**	**115,000**	**2.41**	**19,000**	**1.62**
		2013	95,000	95,000	1.62	0	n/a
	PSP 2014	**2014**	**60,000**	**60,000**	**3.23**	**0**	**n/a**
		2013	0	0	n/a	0	n/a
Total PSRs		**2014**	**80,000**	**213,800**	**3.72**	**51,132**	**6.62**
		2013	133,800	133,800	3.57	24,666	11.43

The exercise prices of the PSRs held by Dr. Taapken range from EUR 1.62 to EUR 9.60. The exercise prices of the PSRs held by Dr. Staub range from EUR 1.62 to EUR 19.35. No PSRs were exercised by the Executive Board members in the reporting year and the previous year.

In addition to the aforementioned remuneration components, the Executive Board members are beneficiaries of a D&O insurance with excess according to the statutory minimum amount and receive full reimbursement of their business travel expenses by the Company according to its general travel policy.

The service agreements of both Executive Board members contain post-contractual non-compete provisions for a period of twelve months after the respective service agreements end. During such period, at the decision of the Supervisory Board, the Executive Board member is entitled to 100% of his last fixed compensation as a non-competition payment. In case of a change of control according to the definition of the German Stock Purchase and Takeover Law (WpÜG), the Executive Board members are entitled to terminate their contracts and would be entitled to receive payment of the fixed remuneration amount for the time remaining until their contracts would have expired, but in no case such payments will exceed 150% of the severance payment cap according to Section 4.2.3 of the German Corporate Governance Code.

Total individual remuneration of the Company's Executive Board members[1,2]:

	Dr. Taapken, CEO/CFO since April 1, 2011				Dr. Staub, COO since April 1, 2013			
Benefits granted (in EUR)	**2013**	**2014**	**2014 (min)**	**2014 (max)**	**2013**	**2014**	**2014 (min)**	**2014 (max)**
Fixed compensation	238,750	240,000	240,000	240,000	165,000	220,000	220,000	220,000
Fringe benefits	0	0	0	0	0	0	0	0
Total	**238,750**	**240,000**	**240,000**	**240,000**	**165,000**	**220,000**	**220,000**	**220,000**
One-year variable compensation	147,000	137,260	0	400,000	52,500	80,000	0	80,000
Multi-year variable compensation	69,410	101,068	0	879,996	59,945	110,576	0	880,000
** share-based compensation*	*69,410*	*101,068*	*0*	*879,996*	*59,945*	*110,576*	*0*	*880,000*
– PSP 03–15	*0*	*0*	*n/a*	*n/a*	*0*	*0*	*n/a*	*n/a*
– PSP 2013	*69,410*	*0*	*n/a*	*n/a*	*59,945*	*27,884*	*0*	*160,000*
– PSP 2014	*0*	*101,068*	*0*	*879,996*	*0*	*82,692*	*0*	*720,000*
** non-share-based compensation*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Total	**455,160**	**478,328**	**240,000**	**1,519,996**	**277,445**	**410,576**	**220,000**	**1,180,000**
Service cost	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Total	**455,160**	**478,328**	**240,000**	**1,519,996**	**277,445**	**410,576**	**220,000**	**1,180,000**

	Dr. Taapken, CEO/CFO since April 1, 2011		Dr. Staub, COO since April 1, 2013	
Allocations (in EUR)	**2013**	**2014**	**2013**	**2014**
Fixed compensation	238,750	240,000	165,000	220,000
Fringe benefits	0	0	0	0
Total	**238,750**	**240,000**	**165,000**	**220,000**
One-year variable compensation	50,000	215,523	12,244	132,500
Multi-year variable compensation	0	0	0	0
** share-based compensation*	*0*	*0*	*0*	*0*
– PSP 03–15	*0*	*0*	*0*	*0*
– PSP 2013	*0*	*0*	*0*	*0*
– PSP 2014	*0*	*0*	*0*	*0*
** non-share-based compensation*	*0*	*0*	*0*	*0*
Total	**288,750**	**455,523**	**177,244**	**352,500**
Service cost	*0*	*0*	*0*	*0*
Total	**288,750**	**455,523**	**177,244**	**352,500**

[1] *The first-time adoption of the remuneration tables recommended by the German Corporate Governance Code (the "Code") leads to a restricted comparability of these tables with the respective disclosure in our annual report 2013. The presentation of previous year's numbers has been amended here accordingly where necessary.*

[2] *The value of the share-based compensation in the table is measured by the fair value of the issued rights at their grant dates. Granted PSRs cannot be exercised before the end of a waiting period of three years after their issuance.*

Shares of the Company held by members of the Executive Board:

		Number of shares			
Executive Board member	Reporting year	held at Jan 1	purchased	sold	held at Dec 31
Dr. Thomas Taapken	**2014**	**33,000**	**18,000**	**0**	**51,000**
	2013	5,000	28,000	0	33,000
Dr. Uwe Staub	**2014**	**0**	**5,000**	**0**	**5,000**
	2013	0	0	0	0
Total Executive Board	**2014**	**33,000**	**23,000**	**0**	**56,000**
	2013	5,000	28,000	0	33,000

Composition and remuneration of the Supervisory Board

Epigenomics AG's Supervisory Board consists of three members with broad experience in the pharmaceutical, diagnostics or financial industries. According to a resolution of the Company's Annual General Shareholders' Meeting 2012, the number of Supervisory Board seats has been reduced from six to three. As a consequence to this reduction, the formation of committees was no longer considered to be adequate[1] (for further details please refer to our Declaration of Governance permanently accessible on the Company's website under *www.epigenomics.com/en/news-investors/investors/corporate-governance/declaration-of-governance.html*).

The Supervisory Board members of the Company in 2014 until December 31 were:

- **Heino von Prondzynski** – Einsiedeln (CH) – Chairman (since May 2, 2012)
  Independent consultant and former member of the group management of F. Hoffmann-La Roche Ltd. (CEO of the Division Roche Diagnostics at F. Hoffmann-La Roche Ltd., Basel, CH)

  Supervisory Board member from May 2007 until March 2010 and since May 2012

  Heino von Prondzynski is not a member of other mandatory supervisory boards. He is a member of comparable boards with supervisory function of the following German or foreign undertakings:

  – Hospira, Inc., Lake Forest, IL (U.S.A.)
  – HTL-Strefa S.A., Warsaw (POL) – (chairman)
  – Koninklijke Philips Electronics N.V. (Royal Philips Electronics), Eindhoven (NL)
  – Quotient Ltd., Jersey (UK)

- **Ann Clare Kessler, Ph.D.** – Rancho Santa Fe, CA (U.S.A.) – Vice-Chairwoman (since May 2, 2012)
  Independent consultant and former Head of Global Project Management at F. Hoffmann-La Roche Ltd. (Basel, CH) and former Head of the Division of Exploratory Research at Hoffmann-La Roche Inc. (U.S.A.)

  Supervisory Board member since June 2005

  Ann Clare Kessler, Ph.D., is not a member of other mandatory supervisory boards. She is a member of comparable boards with supervisory function of the following German or foreign undertakings:

  – Althea Dx Inc., San Diego, CA (U.S.A.)
  – MedGenesis Therapeutix, Inc., Victoria, BC (CAN)

- **Prof. Dr. Günther Reiter** – Pfullingen (GER) – Vice-Chairman (since November 5, 2014)
  Professor at the ESB Business School, Reutlingen (GER)

  Supervisory Board member since June 2005

  Prof. Dr. Reiter is not a member of other mandatory supervisory boards. He is a member of comparable boards with supervisory function of the following German or foreign undertakings:

  – CSA Verwaltungs GmbH, Würzburg (GER)

  Moreover, Prof. Dr. Reiter was a member of a comparable board with supervisory function of Deltoton GmbH, Würzburg (GER) until July 2014.

The remuneration structure for the Supervisory Board is based on an annual cash retainer (fixed remuneration) and meeting-related payments (variable remuneration). The remuneration does not comprise any performance-related elements or long-term incentive components.

[1] *The Supervisory Board had formed an „Audit and Corporate Governance Committee" and a "Personnel and Compensation Committee" in former years when comprising of six members.*

Remuneration of the members of the Supervisory Board:

in EUR	Reporting year	Fixed	Variable remuneration	Total
H. von Prondzynski	**2014**	**90,000**	**12,000**	**102,000**
	2013	45,000	12,000	57,000
Ann C. Kessler, Ph.D.	**2014**	**40,000**	**12,000**	**52,000**
	2013	20,000	12,000	32,000
Prof. Dr. G. Reiter	**2014**	**40,000**	**12,000**	**52,000**
	2013	20,000	12,000	32,000
Total Supervisory Board	**2014**	**170,000**	**36,000**	**206,000**
	2013	85,000	36,000	121,000

In addition, the members of the Supervisory Board were reimbursed for expenses totaling EUR 42 thousand in 2014 (2013: EUR 43 thousand).

Shares of the Company held by members of the Supervisory Board:

		Number of shares			
Supervisory Board member	Reporting year	held at Jan 1	purchased	sold	held at Dec 31
H. von Prondzynski	**2014**	**90,100**	**10,000**	**0**	**100,100**
	2013	12,100	78,000	0	90,100
Ann C. Kessler, Ph.D.	**2014**	**2,800**	**5,000**	**0**	**7,800**
	2013	2,800	0	0	2,800
Prof. Dr. G. Reiter	**2014**	**0**	**0**	**0**	**0**
	2013	0	0	0	0
Total Supervisory Board	**2014**	**92,900**	**15,000**	**0**	**107,900**
	2013	14,900	78,000	0	92,900

FINANCIAL MARKET REPORTING

In line with fair and open disclosure and the requirements of the Prime Standard segment of the Frankfurt Stock Exchange, quarterly financial reports are made available within two months after quarter's end and annual financial statements within four months after year-end. All information is made available simultaneously on our website *www.epigenomics.com*. All material news is announced following the latest guidelines and legal requirements on ad hoc notification.

ADDITIONAL MANDATORY DISCLOSURES FOR LISTED COMPANIES PURSUANT TO SECTION 315 PARAGRAPH 4 OF THE GERMAN COMMERCIAL CODE (HGB)

According to Section 315 paragraph 4 of the German Commercial Code (HGB), the Company is required to report on certain structures governed by the German Stock Corporation Act (AktG) and other legal frameworks, in order to provide a better overview of the Company and disclose any impediments to a takeover.

SHAREHOLDERS WITH DIRECT OR INDIRECT SHAREHOLDINGS OF MORE THAN 10% OF THE VOTING RIGHTS

Based on the information available to the Company, no direct or indirect holdings exceeding 10% of the voting rights were held at the balance sheet date.

COMPOSITION OF SHARE CAPITAL

As of December 31, 2014, the share capital of Epigenomics AG comprised exclusively registered shares with equal rights at a par value of EUR 1.00 each. The total number of outstanding shares as of December 31, 2014, was 15,480,422.

Under certain conditions, shareholders may not be entitled to vote according to Section 136 of the German Stock Corporation Act (AktG). We are not aware of any contractual restrictions related to voting rights or the transfer of shares.

LEGISLATION AND PROVISIONS OF THE ARTICLES OF ASSOCIATION APPLICABLE TO THE APPOINTMENT AND WITHDRAWAL OF MEMBERS OF THE EXECUTIVE BOARD AND GOVERNING AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The appointment and withdrawal of members of the Executive Board is subject to the provisions of Sections 84 and 85 of the German Stock Corporation Act (AktG).

The Supervisory Board shall appoint members of the Executive Board for a maximum period of five years. It is permissible to appoint members to the Executive Board on more than one occasion or to extend their period of office, on each occasion for a maximum of five years.

The Executive Board may consist of one or more persons. The number of members of the Executive Board shall be determined by the Supervisory Board in accordance with the statutory provisions. The Supervisory Board may appoint a member of the Executive Board as its chairperson (CEO) and one or more members of the Executive Board as his/her deputy(ies). Deputy members of the Executive Board may be appointed. The statutory provisions regarding the amendment of the Articles of Association are governed in Sections 179 to 181 of the German Stock Corporation Act (AktG).

Pursuant to Section 14 of the Articles of Association, the Supervisory Board is entitled to adopt amendments and completions to the statutes, which only involve the version thereof.

AUTHORIZATION OF THE EXECUTIVE BOARD TO ISSUE SHARES

The Executive Board is authorized until June 2, 2019, to increase, with the consent of the Supervisory Board, the share capital of the Company once or several times by up to EUR 5,404,356.00 against contribution in cash and/or in kind by issuing new non-par value registered shares (Authorized Capital 2014/II). Subscription rights shall be granted to the shareholders. The new shares can also be subscribed by one or more credit institutions or undertakings acting according to Section 53 paragraph 1 sentence 1 or Section 53b paragraph 1 sentence 1 or paragraph 7 of the German Banking Act (Kreditwesengesetz – KWG) under the obligation to offer the shares to the shareholders for subscription (indirect subscription right). The Executive Board is, however, authorized to exclude, with the consent of the Supervisory Board, the shareholders' statutory subscription rights in the following events:

- for fractional amounts,
- for capital increases against contribution in kind in order to be able to offer shares to third parties with regard to mergers or upon the acquisition of enterprises, parts of enterprises, participation in enterprises or the acquisition of other assets (including receivables),
- for capital increases in cash to the extent the capital increases are implemented for the purpose of a placement of the new shares in the context of a listing at a foreign stock exchange.

The Executive Board is further authorized to determine the point in time as of which the new shares carry dividend rights in deviation from Section 60 paragraph 2 AktG as well as the further details of the implementation of capital increases from Authorized Capital 2014/II.

The share capital is further conditionally increased by up to EUR 21,065.00 by issuance of up to 21,065 new non-par value registered shares with a nominal par value of EUR 1.00 per share (Conditional Capital VII). The conditional capital increase can only be carried out to the extent that option rights were issued on the basis of the stock option program 09–13 of the Company and the holders of these share options exercise their right to subscribe to shares of the Company and the Company does not transfer its own shares in fulfillment of these option rights. The new shares will participate in the profit from the beginning of the financial year in which they are issued. Up to a maximum amount of 21,065 new shares could still be created upon exercise of granted and outstanding options from the underlying program.

The share capital is further conditionally increased by up to EUR 3,853,375.00 by issuance of up to 3,853,375 new non-par value registered shares with a nominal par value of EUR 1.00 per share (Conditional Capital IX). The conditional capital increase is only to be implemented if bonds or participation rights are issued on the basis of the authorization of the Executive Board by resolution of the Annual General Shareholders' Meeting on May 6, 2013, or on the authorization of the Executive Board by resolution of the Annual General Shareholders' Meeting on May 6, 2013, as amended by resolution of the Annual General Shareholders' Meeting of June 3, 2014, until May 5, 2018, and to the extent that

- the holders or creditors of bonds with warrants or conversion rights under bonds or participation rights exercise their option or conversion rights, or
- holders or creditors of bonds or participation rights are obliged to exercise an option or to convert and fulfill this obligation, or
- the Company exercises an election right to grant non-par value shares of the Company instead of paying a cash amount due for payment to the holders or creditors

and to the extent that no cash settlement is granted or treasury shares or shares of another listed company are delivered. The issuance of the new shares occurs at the respective option or conversion price, in each case as further to be determined and specified in accordance with the aforementioned authorization resolution of the Annual General Shareholders' Meeting of May 6, 2013, or in accordance with the authorization resolution of the Annual General Shareholders' Meeting on May 6, 2013, as amended by resolution of the Annual General Shareholders' Meeting of June 3, 2014, or the lower issue price determined in accordance with the authorization resolution of the Annual General Shareholders' Meeting on May 6, 2013, as amended by resolution of the Annual General Shareholders' Meeting of June 3, 2014. The newly issued shares shall carry dividend rights from the commencement of the fiscal year in which the shares are issued, or, as far as legally permissible, if no resolution on the application of the profit of the fiscal year immediately preceding the year of the issuance has been adopted when the new shares are issued, from the commencement of this fiscal year immediately preceding the year of the issuance. The Executive Board is authorized, subject to Supervisory Board approval, to determine the further details concerning the implementation of the conditional capital increase.

In 2014, further 611,775 new shares have been created from the conversion of convertible bonds issued under the aforementioned amended authorization. At the end of 2014, 18 convertible bonds, issued by the Company in 2013, which can be converted by their holders until December 2015 in up to 3,670,650 shares from Conditional Capital IX, were still outstanding.

The share capital is further conditionally increased by up to EUR 1,586,206.00 by issuance of up to 1,586,206 new non-par value registered shares with a nominal par value of EUR 1.00 per share (Conditional Capital X). The conditional capital increase is only to be implemented if bonds or participation rights are issued based on the authorization of the Executive Board by resolution of the Annual General Shareholders' Meeting on May 6, 2013, or on the authorization of the Executive Board by resolution of the Annual General Shareholders' Meeting on June 3, 2014, until June 2, 2019, to the extent that

- the holders or creditors of bonds with warrants or conversion rights under bonds or participation rights exercise their option or conversion rights, or
- holders or creditors of bonds or participation rights are obliged to exercise an option or to convert and fulfill this obligation, or
- the Company exercises an election right to grant shares of the Company instead of paying a cash amount due for payment to the holders or creditors

and to the extent that no cash settlement is granted or treasury shares or shares of another listed company are delivered. The issuance of the new shares occurs at the respective option or conversion price, in each case as further to be determined and specified in accordance with the aforementioned authorization resolution dated June 3, 2014. The newly issued shares shall carry dividend rights from the commencement of the fiscal year in which the shares are issued, or, as far as legally permissible, if no resolution on the application of the profit of the fiscal year immediately preceding the year of the issuance has been adopted when the new shares are issued, from the commencement of this fiscal year immediately preceding the year of the issuance. The Executive Board is also authorized, subject to Supervisory Board approval, to determine the further details concerning the implementation of the conditional capital increase.

FIVE-YEAR OVERVIEW

– according to the consolidated financial statements –

EUR thousand (except where indicated)	2010	2011	2012	2013	2014
Statement of Profit or Loss					
Revenue	1,787	1,437	1,039	1,588	1,507
Gross profit	1,313	1,080	747	1,101	776
EBIT	-11,449	-15,245	-12,123	-7,288	-8,383
EBITDA	-10,307	-10,939	-11,200	-6,489	-7,613
Net loss for the year	-11,476	-15,575	-12,197	-7,411	-8,854
Balance Sheet					
Non-current assets	5,463	4,042	3,053	2,167	2,352
Investments in non-current assets[1]	439	388	87	0	911
Current assets	28,375	15,421	3,825	8,914	8,968
Non-current liabilities	0	0	0	542	1,407
Current liabilities	2,543	3,277	2,720	4,080	3,805
Equity	31,295	16,186	4,158	6,459	6,108
Equity ratio (in %)	92.5	83.2	60.5	58.3	54.0
Total assets	33,838	19,463	6,878	11,081	11,320
Cash Flow Statement					
Cash flow from operating activities	-9,479	-9,111	-10,884	-6,505	-7,221
Cash flow from investing activities	-315	-2,842	954	-20	-874
Cash flow from financing activities	30,394	-44	-422	11,527	7,603
Net cash flow	20,600	-11,997	-10,352	5,002	-492
Cash consumption	-10,294	-12,241	-10,930	-6,525	-8,095
Cash and cash equivalents at year-end	24,554	12,557	2,205	7,207	6,715
Stock[2]					
Weighted-average number of shares issued	8,083,549	8,818,417	8,818,417	11,910,017	13,631,263
Earnings per share (basic and diluted, in EUR)	-1.40	-1.77	-1.38	-0.62	-0.65
Share price at year-end (in EUR)	10.25	1.30	2.10	6.12	5.10
Number of employees at year-end	82	61	39	34	37

[1] Excluding capitalized development costs

[2] In order to ensure comparability, the figures for 2010 have been adjusted retroactively, following the consolidation of shares in 2011.

CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL 2014

– according to International Financial Reporting Standards (IFRSs) –

CONTENTS

GROUP STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31

EUR thousand	Notes	2013	2014
Revenue	1	1,588	1,507
Cost of sales	3	-487	-731
Gross profit		**1,101**	**776**
Gross margin (in %)		*69.4*	*51.5*
Other income	2	621	558
Research and development costs	3	-4,375	-4,688
Selling, general and administrative costs	3	-4,508	-4,907
Other expenses	3, 6	-127	-122
Operating result/Earnings before interest and taxes (EBIT)		**-7,288**	**-8,383**
Interest income	8	22	19
Interest expenses	8	-33	-516
Other financial result	8	22	-1
Net loss for the year before taxes on income		**-7,277**	**-8,881**
Taxes on income	9	-134	27
Net loss for the year		**-7,411**	**-8,854**
Items that may be reclassified subsequently to profit or loss:			
Fair value adjustment of available-for-sale securities	23	241	30
Other comprehensive income for the year		**241**	**30**
Total comprehensive income for the year		**-7,170**	**-8,824**
Earnings per share (basic and diluted) (in EUR)	10	**-0.62**	**-0.65**

GROUP BALANCE SHEET
AS OF DECEMBER 31

ASSETS (EUR thousand)	Notes	Dec 31, 2013	Dec 31, 2014
Non-current assets			
Intangible assets	11, 13	1,920	1,291
Tangible assets	12, 13	247	1,013
Deferred tax assets	14	0	48
Total non-current assets		**2,167**	**2,352**
Current assets			
Inventories	15	275	753
Trade receivables	16	258	307
Marketable securities	17	750	780
Cash and cash equivalents	18	7,207	6,715
Other current assets	19	424	413
Total current assets		**8,914**	**8,968**
Total assets		**11,081**	**11,320**

EQUITY AND LIABILITIES (EUR thousand)	Notes	Dec 31, 2013	Dec 31, 2014
Equity			
Subscribed capital	20	13,083	15,480
Capital reserve	21	27,506	33,582
Retained earnings	22	-26,469	-33,880
Net loss for the year	10	-7,411	-8,854
Other comprehensive income	23	-250	-220
Total equity		**6,459**	**6,108**
Non-current liabilities			
Provisions	25	542	1,407
Total non-current liabilities		**542**	**1,407**
Current liabilities			
Trade payables	26	1,030	897
Deferred income	27	67	55
Convertible notes issued	28	1,932	1,926
Other liabilities	29	416	511
Provisions	25	635	416
Total current liabilities		**4,080**	**3,805**
Total equity and liabilities		**11,081**	**11,320**

GROUP CASH FLOW STATEMENT
FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31

EUR thousand	Notes	2013	2014
Cash and cash equivalents at the beginning of the year	18	**2,205**	**7,207**
Operating activities	31		
Net loss for the year		**-7,411**	**-8,854**
Corrections for:			
Depreciation of tangible assets	5, 7, 12	127	135
Amortization of intangible assets	5, 7, 11	672	635
Losses from the disposal of assets		0	5
Stock option expenses		-2	0
Foreign currency exchange results		1	0
Interest income	8	-22	-19
Interest expenses	8	33	516
Taxes	9	134	-27
Operating result before changes in net current assets		**-6,468**	**-7,609**
Changes in trade receivables and other current assets		399	-111
Changes in inventories		-244	-478
Changes in non-current liabilities		542	865
Changes in current liabilities from operating activities		-728	112
Liquidity earned from operating activities		**-6,499**	**-7,221**
Interest received		22	21
Tax paid		-28	-21
Cash flow from operating activities		**-6,505**	**-7,221**
Investing activities	32		
Payments for investments in tangible assets		-16	-868
Payments for investments in intangible assets		-4	-6
Cash flow from investing activities		**-20**	**-874**
Financing activities	33		
Proceeds from the issue of new shares	33	9,215	4,178
Payments for the creation of new shares		-555	0
Proceeds from the issue of convertible notes	33	3,250	200
Proceeds from the conversion of convertible notes	28	0	3,648
Payments for the creation of convertible notes		-383	-423
Cash flow from financing activities		**11,527**	**7,603**
Total net cash flow		**5,002**	**-492**
Cash and cash equivalents at the end of the year	18	**7,207**	**6,715**

STATEMENT OF CHANGES IN GROUP EQUITY
AS OF DECEMBER 31

EUR thousand	Notes	Subscribed capital	Capital reserve	Retained earnings	Net loss for the year	Other comprehensive income	**Group equity**
December 31, 2012		**8,818**	**22,299**	**-14,272**	**-12,197**	**-491**	**4,158**
Total comprehensive income	10, 23	**0**	**0**	**0**	**-7,411**	**241**	**-7,170**
Transfer of net loss for the year 2012 to retained earnings		0	0	-12,197	12,197	0	0
Capital increase from the issue of shares from Authorized Capital		4,028	0	0	0	0	4,028
Premium from the issue of shares from Authorized Capital		0	5,187	0	0	0	5,187
Costs of the creation of new shares		0	-612	0	0	0	-612
Conversion of convertible notes		237	0	0	0	0	237
Option premium on convertible notes		0	772	0	0	0	772
Cost of the issue of convertible notes		0	-8	0	0	0	-8
Revaluation of granted stock option rights		0	-132	0	0	0	-132
December 31, 2013		**13,083**	**27,506**	**-26,469**	**-7,411**	**-250**	**6,459**
December 31, 2013		**13,083**	**27,506**	**-26,469**	**-7,411**	**-250**	**6,459**
Total comprehensive income	10, 23	**0**	**0**	**0**	**-8,854**	**30**	**-8,824**
Transfer of net loss for the year 2013 to retained earnings	22	0	0	-7,411	7,411	0	0
Capital increase from the issue of shares from Authorized Capital	20, 21	1,351	0	0	0	0	1,351
Premium from the issue of shares from Authorized Capital	21	0	2,810	0	0	0	2,810
Costs for the creation of new shares	21	0	-44	0	0	0	-44
Conversion of convertible notes	28	1,040	0	0	0	0	1,040
Option premium on convertible notes	28	0	3,301	0	0	0	3,301
Cost of the issue of convertible notes		0	-1	0	0	0	-1
Exercise of stock options	21	6	10	0	0	0	16
December 31, 2014		**15,480**	**33,582**	**-33,880**	**-8,854**	**-220**	**6,108**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BASIC INFORMATION, PRINCIPLES AND METHODS

DESCRIPTION OF BUSINESS ACTIVITY

Epigenomics ("Epigenomics" or the "Company") was founded as a limited liability company (GmbH) in 1998 and has its headquarters in Berlin, Germany. In 2000, the Company was converted into a stock corporation (AG) and entered into the commercial register (Handelsregister) Charlottenburg under HRB 75861. Since July 19, 2004, it is listed in the Prime Standard segment of the Frankfurt Stock Exchange (ticker symbol: ECX).

In accordance with its Articles of Association, the object of the Company is the development and marketing of procedures and devices for the production in quantity of particular epigenetic parameters such as DNA methylation patterns as well as the information technology bases necessary for their procurement and evaluation. Epigenomics AG is a molecular diagnostics company developing and commercializing a pipeline of proprietary products for screening, early detection and diagnosis of cancer. The Company's products enable doctors to diagnose cancer earlier and more accurately, leading to improved outcomes for patients.

GENERAL PRINCIPLES

The consolidated financial statements of Epigenomics AG have been prepared according to Section 315a of the German Commercial Code (HGB) and in application of the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), London, in effect at the closing date December 31, 2014, as mandatory applicable in the European Union. Further, these statements are in accordance with the German Accounting Standards (GASs).

The "going concern" principle according to IAS 1.25 *Presentation of Financial Statements* has been considered.

The statement of profit or loss has been prepared using the cost of sales method.

REPORTING PERIOD AND REPORTING CURRENCY

The reporting period (comparison period) as defined in these consolidated financial statements is the period from January 1 to December 31, 2014 (2013). The reporting currency is the euro.

CONSOLIDATION GROUP

The consolidated Group comprises Epigenomics AG as the parent company (principal office: Geneststrasse 5, 10829 Berlin, Germany) and Epigenomics, Inc. (principal office: Suite 400, 1455 NW Leary Way, Seattle, WA 98107, U.S.A.), as its only subsidiary during the reporting period. Epigenomics, Inc. additionally operates an office in Germantown, MD, U.S.A.. Epigenomics AG owned 100% of the share capital and the voting rights of Epigenomics, Inc. between January 1 and December 31, 2014.

For the reporting year and the previous year, the two companies each have submitted separate financial statements which were either audited or critically reviewed, independent of their consolidation.

PRINCIPLES OF CONSOLIDATION

In the consolidation of capital, the acquisition values of the investment are balanced with the share of equity capital of the subsidiary applicable to them on the date of acquisition. A resulting difference is added to the assets and liabilities in the amount in which their market value deviates from their carrying value at the time of the initial consolidation. An amount in excess is capitalized as goodwill.

All intercompany transaction results, income and expenses, profits and losses, receivables and payables are eliminated in full on consolidation.

APPLICATION OF NEW AND REVISED IFRSs AND INTERPRETATIONS

In the reporting year, the Group has applied the following new and revised IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after January 1, 2014. All of these amendments to IFRSs and the new interpretations generally require full retrospective application, with some amendments providing specific transitional provisions.

- *Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities*
  The amendments to IFRS 10 define an investment entity and introduce an exception from the requirement to consolidate subsidiaries for an investment entity. In terms of the exception, an investment entity is required to measure its interest in subsidiaries at fair value through profit or loss. The exception does not apply to subsidiaries of investment entities that provide services that relate to the investment entity's investment activities. As a consequence, amendments to IFRS 12 and IAS 27 have been made to introduce new disclosure requirements for investment entities.
- *Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities*
  The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right to set-off" and "simultaneous realization and settlement".
- *Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets*
  The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 *Fair Value Measurements.*
- *Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting*
  The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.
- *IFRIC 21 Levies*
  IFRIC 21 addresses the issue of when to recognize a liability to pay a levy. The interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

NEW AND REVISED IFRSs AND INTERPRETATIONS THAT ARE NOT MANDATORILY EFFECTIVE (BUT ALLOW EARLY APPLICATION) FOR THE REPORTING YEAR

The Group has not applied the following new and revised IFRSs which have been issued but are not yet effective:

		Mandatorily applicable beginning on or after
Amendments to IAS 19	Defines Benefit Plans: Employee Contributions	July 1, 2014
Annual Improvements to IFRSs	2010–2012 Cycle (Amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38)	
Annual Improvements to IFRSs	2011–2013 Cycle (Amendments to IFRS 3, IFRS 13 and IAS 40)	
IFRS 14	Regulatory Deferral Accounts	January 1, 2016
Amendments to IFRS 11	Accounting for Acquisition of Interests in Joint Operations	
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization	
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants	
IFRS 15	Revenue from Contracts with Customers	January 1, 2017
IFRS 9	Financial Instruments (as revised in 2014)	January 1, 2018

The **amendments to IAS 19** clarify how an entity should account for contributions made by employees or third parties that are linked to services to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employees.

The **Annual Improvements (2010–2012 Cycle)** include amendments to a number of IFRSs which are briefly outlined below:

- IFRS 2 *Share-based Payments:* amended definition of vesting conditions;
- IFRS 3 *Business Combinations:* amended accounting for contingent consideration in a business combination;
- IFRS 8 *Operating Segments:* amended aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets;
- IFRS 13 *Fair Value Measurement:* clarification on the measurement of short-term receivables and payables;
- IAS 16 *Property, Plant and Equipment* and *IAS 38 Intangible Assets:* amended revaluation method;
- IAS 24 *Related Party Disclosures:* clarification of the definition of key management personnel.

The **Annual Improvements (2011–2013 Cycle)** include amendments to a number of IFRSs which are briefly outlined below:

- IFRS 3 *Business Combinations:* clarification on the scope exceptions for joint ventures;
- IFRS 13 *Fair Value Measurement:* amended scope of paragraph 52 (portfolio exception);
- IAS 40 *Investment Property:* clarification of the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

IFRS 14 specifies the accounting for regulatory deferral account balances that arise from rate-regulated activities (only for first-time adopters of IFRSs).

The **amendments to IFRS 11** provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 *Business Combinations*.

The **amendments to IAS 16** prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment and the **amendments to IAS 38** introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset.

The **amendments to IAS 16 and IAS 41** define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16 instead of IAS 41.

The new **IFRS 15** establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue standards and interpretations upon its effective date: IAS 18 *Revenue,* IAS 11 *Construction Contracts,* IFRIC 13 *Customer Loyalty Programmes,* IFRIC 15 *Agreements for the Construction of a Real Estate,* IFRIC 18 *Transfers of Assets from Customers* and SIC 31 *Revenue-Barter Transactions Involving Advertising Services.*

IFRS 9 (as revised in 2014) will supersede IAS 39 *Financial Instruments: Recognition and Measurement* in its entirety upon its effective date. Compared to IFRS 9 (as revised in 2013), the 2014 version includes limited amendments to the classification and measurement requirements by introducing a "Fair value through other comprehensive income" measurement category for certain simple debt instuments. It also adds the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit.

The Company intends to adopt these new and/or revised standards and amendments as soon as their adoption is mandatory and they are EU endorsed. Potential material impact of the adoption of these amendments and improvements on the Company's financial statements for the fiscal year 2015 is not expected. Any potential impact on the following fiscal years is not reliably predictable by the Company at this point in time.

MANAGEMENT'S JUDGMENT, ASSUMPTIONS AND EXPECTATIONS

The management of the Company has made several judgments in the process of applying the entity's accounting policies that have a significant effect on the amounts recognized in the financial statements. Those judgments concern the capitalization of development costs and the recognition of deferred taxes. The judgments are described for each relevant position in the enumeration of accounting and valuation principles.

Management's expectations on the future are usually based on the current economic outlook according to the consensus prognoses by leading economic and financial research institutions and independent analysts. The global economic situation is not expected to improve significantly in 2015, but rather to rest on shaky ground due to the worldwide increasing political challenges.

The plans of the Group's management do not expect Epigenomics to be very dependent on the overall economic situation in the short term. The Group's operating activities are further not very dependent on the availability of or the price development for commodities or industrial supplies but rather on the individual situation of the Company and its opportunities to continue its operations by further financing transactions. Therefore, the Company is still dependent on the condition and the development of the capital markets (mainly in the U.S.A. and in Germany), especially with regard to the life sciences industry. Additionally, the Company is strongly dependent on the regulatory approval for the market access of its lead product – Epi proColon® – to the U.S.A. and to China, and subsequently on the commercial success of this product. The Company's strategy going forward assumes a positive market approval decision by the U.S. Food and Drug Administration (FDA) in the course of 2015.

Material changes in the legislation of those major countries that could significantly affect the diagnostics industry are not assumed. Changes in the tax laws of Germany and the U.S.A. that would in any material way affect our financial situation in the foreseeable future are also not anticipated. In the medium to long term, the reform project for the local healthcare system under implementation by the Obama administration will more or less influence the activities of all life sciences companies. At the present time, however, it is still uncertain, when, to which extent and whether this reform project will be implemented. The current development in the FDA's regulation activities towards laboratory-developed tests (LDTs) may have additional impact on certain life sciences companies and of course on U.S. diagnostic laboratories, which constitute a large part of our customer base. However, under our assumption of a positive market approval decision for Epi proColon® in the near future, the observed tendency of the FDA's regulations on LDTs is likely more favorable for our Company than not.

All future scenarios furthermore assume an essentially unchanged access to relevant clinical and biological samples, corresponding clinical data and sufficient resources for the execution of the Company's commercial projects.

In the medium term, the euro currency is expected to remain rather weak vis-à-vis the U.S. dollar. Management plans are based on an average exchange rate of EUR/USD 1.24 throughout 2015. It also took note of the predictions of financial experts and banks at the time of the budget preparation, which are usually diverging with regard to this relation.

The preparation of the consolidated financial statements in compliance with IFRSs requires, in the case of several items, that assumptions or estimates be made that affect the valuation in the Group balance sheet and/or the Group statement of profit or loss. This also applies to the listing of contingent assets and liabilities. The actual amounts may vary from these assumptions and estimates.

In particular, assumptions and estimates are required for:

- determining, if the criteria for the capitalization of development costs and the recoverability of internally generated intangible assets are met,
- testing a potential impairment of assets (especially regarding intangible assets),
- determining the terms of in-licensed intellectual property rights,
- determining the useful lives of tangible and intangible non-current assets, in particular of capitalized development costs,
- determining, if deferred taxes are realizable,
- determining, if securities classify as available-for-sale or at fair value through profit or loss,
- determining the fair value of financial instruments,
- setting the parameters regarding the valuation of share-based payment instruments, and
- accounting for provisions (especially the determination of the likelihood of occurrence).

ACCOUNTING AND VALUATION PRINCIPLES

Revenue recognition

Revenue from the sale of goods and the rendering of other services is recognized when:

- delivery of the goods to the buyer has taken place,
- transfer of risks and rewards in connection with the goods has been completed,
- the amount of revenue and the costs incurred related to the transaction can be measured reasonably, and
- collection of the receivable is probable.

Revenue from research and development collaboration agreements is recorded and recognized using the percentage of completion method, when costs are incurred in connection with the contractual obligations in accordance with the applicable performance requirements and terms of the respective contracts.

Milestone payments are recognized as revenue according to the milestone payment method. Revenue under the milestone payment method is recorded and recognized when acknowledgement of having achieved applicable performance requirements is received from the partner.

Non-refundable upfront payments are deferred and recognized on a straight-line basis over the contractual collaboration term. Optional prolongation terms are considered individually according to the underlying exercise conditions and anticipated likelihood of their exercise.

Royalty revenue is recognized on an accrual basis in accordance with the substance of the relevant contract. Royalties determined on a time basis are recognized on a straight-line basis over the contracted period. Royalty arrangements that are based on sales and other measures are recognized by reference to the underlying contract.

Cost of sales

Cost of sales include expenses for material used in products sold, changes in inventories, services received in connection with product sales or other types of revenue, royalties to be paid to third parties and triggered by product sales or other types of revenue. In addition, cost of sales includes directly allocable portions of personnel expenses, costs of intellectual property, depreciation and amortization as well as pro rata overheads.

Government grants

In individual cases, cost contributions from public authorities are granted for research projects. These grants are partially paid in advance and then reported as deferred income (see below). To some extent, grants will only be paid after the work has been performed and proven. In such cases, another current asset is capitalized through profit or loss.

Investment grants and subsidies are offset directly against the acquisition costs of the subsidized assets, i.e. the asset value is reduced. The grant is thus liquidated by depreciation of the reduced investment over the remaining term.

Government grants usually come with certain requirements, which have been met so far by the Company and are expected to be met going forward. If the requirements were not met anymore in the future, repayment claims could arise which have not been recognized yet.

Research and development costs

Research and development costs (R&D costs) include the personnel expenses for the R&D staff, costs of R&D material, scheduled depreciation and amortization, service fees, licensing fees and other direct expenses in connection with the Company's research and/or development activities (including clinical studies) which cannot be classified as revenue-generating activities. In addition, R&D costs include pro rata overhead costs charged to the R&D departments.

Selling, general and administrative costs

Selling, general and administrative costs (SG&A costs) include:

- all direct personnel and material expenses of the corresponding departments,
- scheduled depreciation and amortization of the corresponding departments,
- other direct expenses of the corresponding departments, and
- pro rata overheads of the corresponding departments as well as the Company's statutory costs.

Other expenses

Other expenses comprise of all operating expenses which do not classify as cost of sales, R&D costs or SG&A costs as defined above. This includes in particular but not exclusively

- foreign currency exchange rate losses,
- losses from the disposal of assets, and
- expenses due to extraordinary effects or measures like restructuring expenses or impairment losses of non-current assets (e.g. goodwill amortization).

Share-based payment expenses

The fair value of granted stock options is calculated using the Black-Scholes option pricing model and is expensed over the expected option term of up to four years against the capital reserve. According to IFRS 2.11 *Share-based Payment*, the valuation date is the grant date.

The fair value of granted phantom stock rights is calculated using the binomial model based on the Cox-Ross-Rubinstein model in accordance with IFRS 2 *Share-based Payment*, and recognized pro rata temporis as expenses and as a provision due to the obligation of the Company for a cash settlement in the future. If phantom stock rights are held by current employees of the Group, the related expenses are recorded as personnel costs and included in the payroll provisions. If phantom stock rights are held by former employees of the Group, the related expenses are recorded as other costs and included in other provisions.

Intangible assets

Intangible assets other than goodwill and capitalized development costs are valued at acquisition or production cost less scheduled amortization on a straight-line basis. Depending on the investment, useful life will be defined between three years (software) and twenty years (patents). For patents, the useful life in individual cases depends on the term of the patent protection. Amortization of intangible assets is allocated in the statement of profit or loss to the functional area in which they are used. IAS 38 *Intangible Assets* is applied. In accordance with this standard, an intangible asset is reported if it is likely that a future financial advantage is associated with the use of such asset and that its cost can be reliably determined. An impairment test will be done annually for assets or groups of assets for which an unplanned decrease in value is assumed. If the carrying amount of an intangible asset exceeds the recoverable amount of this asset at the closing date, it will be taken into account by means of an unplanned amortization determined by the result of the impairment test. If there is no longer any reason for an impairment loss, an appreciation will take place up to the amortized acquisition costs as a maximum.

Capitalized development costs

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally generated intangible asset arising from internal development is recognized if, and only if, all of the following requirements according to IAS 38.57 *Intangible Assets* have been fulfilled:

- proof of the technical feasibility of completing the intangible asset so that it will be available for use or sale,
- proof of the intention to complete the intangible asset to use or sell it,
- proof of the ability to use or sell the intangible asset,
- proof of how the intangible asset will generate probable future economic benefits,
- proof of the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- demonstration of the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for the capitalization of development costs is the sum of expenditure incurred from the date when the intangible assets first met the aforementioned recognition criteria. Where no internally generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, capitalized development costs are reported at cost less accumulated amortization and impairment losses, on the same basis as intangible assets acquired separately. The useful life of such capitalized development costs is assumed under consideration of the business plan and amounts to up to five years for the currently capitalized assets. Depreciation is recorded on a straight-line basis.

Tangible assets

Tangible assets are measured at acquisition or production cost less scheduled depreciation caused by usage. Apart from directly attributable costs, pro rata overhead cost and depreciation are also included in the production costs of internally produced equipment. Public and governmental investment grants lower the acquisition or production costs. Repair costs are immediately calculated as an expense. Depreciation for leasehold improvements is applied on a straight-line basis over the remaining term of the underlying leases. Mobile fixed assets are depreciated in principle on a straight-line basis. The useful life is three to eight years for technical and electronic equipment and five to ten years for operational and office equipment.

In the “Assets schedule”, fully depreciated tangible assets are shown under acquisition/production costs and accumulated depreciation until the assets in question are decommissioned. In the case of disposal, assets and related depreciation are eliminated from the accounts. Income or expense resulting from the disposal of assets (proceeds less residual carrying value) is shown in the statement of profit or loss under other income/other expenses.

If the carrying value of the tangible assets calculated according to the above principles exceeds the recoverable amount of these assets at the closing date, it will be taken into account by means of an unscheduled depreciation. The amount to be adjusted is determined by the net sale proceeds or – if higher – the net present value of future cash flows estimated from the value in use of the asset. An impairment test will be done annually for assets or groups of assets for which an unplanned decrease in value is assumed. If there is no longer any reason for unscheduled depreciation, an appreciation will take place up to the amortized acquisition costs as a maximum.

Deferred taxes

Deferred taxes are calculated according to the rules of IAS 12 *Income Taxes*. They are recognized on the basis of temporary differences between the carrying amount of assets and liabilities in the financial statements according to IFRS of the companies involved and in their tax accounts. Further, deferred tax assets are recognized for unused tax loss carryforwards and unused tax credits to the extent that deferred tax liabilities exist, or that taxable income is likely to be available against which to utilize the benefits of the temporary differences and that these are expected to reverse in the foreseeable future. At each balance sheet date, it is measured if these requirements are still met. If such a realization in the foreseeable future is not likely, a valuation allowance is recognized against the tax loss carryforwards.

Deferred taxes are valued using the tax rates applicable on the balance sheet date or the tax rates which are expected to be legally applicable at the future point in time when the deferred tax position becomes due. Deferred tax assets and liabilities are offset against one another only if they are subject to compensation with regard to the same tax authority and if the Group intends to settle its current tax assets and liabilities on a net basis.

Inventories

Inventories comprise finished and semi-finished products, raw materials, low-value consumables as well as other production supplies. They are stated at the lower of acquisition or manufacturing cost and net realizable value. The manufacturing costs of the finished and semi-finished products include directly attributable unit costs, depreciation, amortization of capitalized development costs and overheads attributable to the production process. For finished and semi-finished products the principle of separate valuation applies.

Financial instruments

Financial assets and liabilities are initially measured at fair value. Purchase and sale of financial assets is recognized using trading date accounting.

Primary financial instruments

The reported primary financial instruments comprise cash and cash equivalents, marketable securities, trade receivables, trade payables and other liabilities. Those instruments are initially recognized at acquisition cost or at fair value and then at amortized acquisition cost or at their fair value.

Marketable securities

According to the definitions of IAS 39.9 *Financial Instruments: Recognition and Measurement,* the Company's marketable securities are classified either as financial assets at fair value through profit or loss (FVTPL) or as available-for-sale financial assets (AFS). The Group does not hold financial assets for trading purposes. Irrespective of this classification, financial assets are recognized at fair value. Changes in fair value are recognized through profit or loss or – if the securities classify for AFS – in other comprehensive income until the securities are disposed of or are determined to be permanently impaired. Impairment losses recognized in profit or loss are subsequently reversed if an increase in the fair value of the instrument can be objectively determined.

Derivative financial instruments

Derivative financial instruments are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair values at the end of each reporting period. The result is recognized as financial result through profit or loss.

As a matter of principle, the fair values of derivative financial instruments correspond to their market values. For unlisted derivatives, the fair values are determined by individual settlement quotes from the Group's contractual partner of the underlying agreement.

Impairment of financial assets

At the balance sheet date, a financial asset, other than those measured at fair value, is measured whenever there is an indication that the asset might be impaired. A financial asset is impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

The carrying amount of a financial asset is reduced by the impairment amount directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered to be no longer collectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Cash equivalents

A cash equivalent is defined as a financial instrument being readily convertible on a short-term basis to a known amount of cash and carrying an insignificant risk of changes in value (IAS 7.6 *Statement of Cash Flows*). Financial instruments generally qualify as cash equivalents when they are more closely related to the money markets than to the bond markets and are issued by a debtor rated "investment grade". All such cash equivalents must be convertible into primary cash at any time.

Prepaid expenses

Payments before the balance sheet date, which will be expenses for a specific period after that date, are deferred and reported as prepaid expenses in other current assets.

Financial liabilities

On initial recognition, financial liabilities are carried at fair value less transaction costs. The price is determined on a price-efficient and liquid market. In subsequent periods, the financial liabilities are measured at amortized cost. Any differences between the amount received and the amount repayable are recognized through profit or loss over the term of the loan using the effective interest method.

Compound financial instruments constituting a financial liability to the Company and granting an optional conversion right into an equity instrument are recognized separately by an equity and a liability element in the balance sheet. The liability element is measured at fair value.

Non-current and current liabilities

Liabilities are classified as current when certain criteria in accordance with IAS 1.60 seq. *Presentation of Financial Statements* are met. Basically, the Company's normal operating cycle according to this definition is twelve months. In the licensing business, the operating cycle is even more than twelve months.

Trade payables

Trade payables are initially recognized at the fair value of the received goods and services. After initial recognition, they are measured at amortized cost. Foreign currency liabilities are converted at market currency exchange rates at the reporting date. Trade payables are derecognized if the obligation on which this liability is based is fulfilled, cancelled or expired.

Deferred income

Deferred income is recognized for grants and for research and development payments (R&D payments) received in advance. Grants received in advance which were provided by governmental or comparable supranational, regional or local authorities are recognized through profit or loss as other income over the subsidized terms of each granted project according to its progress of fulfillment (percentage of completion method). Payments received in advance from customers for R&D services to be rendered by the Company in the future or for licenses are deferred and recognized through profit or loss under the terms and conditions of the contract according to the progress of fulfillment (percentage of completion method).

Provisions

In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, a provision is recognized if a present obligation as a result of a past event exists, if it is probable that an outflow of resources embodying benefits will be required to settle this obligation and if a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows expected to be required to settle the present obligation, its carrying amount is the present value of these cash flows. Obligations arising from share-based payment programs that provide for awards payable in cash (i.e. the Company's phantom stock programs) are measured at fair value and recognized as current or non-current provision based on the remaining term of the underlying rights to become exercisable.

CURRENCY TRANSLATION

In the individual financial statements, receivables and liabilities in foreign currencies are valued using the corresponding euro reference rate published by the European Central Bank and applicable at the closing date. Items that are hedged by forward transactions are valued at their forward prices.

For consolidation purposes, the reporting currency of the U.S.-based Epigenomics, Inc. is the euro as it is determined as the entity's functional currency according to IAS 21.9 et seqq. *The Effect of Changes in Forward Exchange Rates*.

Transactions in foreign currencies are translated with the exchange rates at the transaction date. Exchange rate differences resulting from such transactions and from the translation with the reporting date rates are recognized through profit or loss.

Applied foreign currency exchange rates in the reporting period:

Reporting date rates	Dec 31, 2013	Dec 31, 2014
EUR/USD	1.3791	1.2141
EUR/GBP	0.83370	0.77890

Average rates	2013	2014
EUR/USD	1.3308	1.3211
EUR/GBP	0.85008	0.80310

NOTES TO THE GROUP STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

1 REVENUE

Revenue source by revenue type:

	2013		2014	
	EUR thousand	% of total	EUR thousand	% of total
Product sales (own and third-party)	649	40.9	830	55.1
Licensing income	425	26.7	122	8.1
R&D income and reimbursements	514	32.4	555	36.8
Total revenue	**1,588**	**100.0**	**1,507**	**100.0**

Licensing income is generated by out-licensing of own intellectual property (e.g. technologies, biomarkers) to third parties. Revenue from product sales is generated by the sale of the Group's products through own sales channels, through distribution partners or by the rendering of services by third parties based on the Company's products. R&D income and reimbursements are generated by rendering services in connection with contract research and by charging pass-through costs to third parties.

Revenue source by geographical market:

	2013		2014	
	EUR thousand	% of total	EUR thousand	% of total
Europe	1,024	64.5	1,035	68.7
North America	358	22.5	114	7.6
Asia	177	11.1	353	23.4
Rest of the world	29	1.9	5	0.3
Total revenue	**1,588**	**100.0**	**1,507**	**100.0**

In the reporting year, 62% of total revenue (2013: 66%) was generated by the three largest customers of the Company.

2 OTHER INCOME

EUR thousand	2013	2014
Income from the reversal of provisions	19	259
Third-party research grants from public authorities	256	238
Foreign exchange rate gains	42	36
Recoveries and refunds	136	13
Correction of deferred liabilities	164	11
Other	4	1
Total other income	**621**	**558**

3 COST ALLOCATION BY FUNCTION

2013 EUR thousand	Cost of sales	R&D costs	SG&A costs	Other expenses	Total
Materials and consumables	225	279	10	0	514
Depreciation and amortization	3	713	83	0	799
Personnel costs	164	1,482	2,090	0	3,736
Other costs	95	1,901	2,325	127	4,448
Total	**487**	**4,375**	**4,508**	**127**	**9,497**

2014 EUR thousand	Cost of sales	R&D costs	SG&A costs	Other expenses	Total
Materials and consumables	422	266	25	0	713
Depreciation and amortization	3	681	86	0	770
Personnel costs	224	1,694	2,212	0	4,130
Other costs	82	2,047	2,584	122	4,835
Total	**731**	**4,688**	**4,907**	**122**	**10,448**

4 PERSONNEL COSTS

EUR thousand	2013	2014
Personnel remuneration	2,759	2,893
Share-based payment expenses	632	869
– thereof: expenses for issuing PSRs to members of the Executive Board		
PSR expenses for Dr. Taapken (CEO/CFO)	*123*	*123*
PSR expenses for Dr. Staub (COO)	*113*	*119*
Social security expenses	345	368
– thereof:		
employer's contribution to a national pension fund (Germany)	*113*	*124*
employer's contribution to a 401(k) savings plan (U.S.A.)	*18*	*15*
Total personnel costs	**3,736**	**4,130**

5 DEPRECIATION AND AMORTIZATION

EUR thousand	2013	2014
Scheduled depreciation of tangible assets	127	135
Scheduled amortization of intangible assets	672	635
Total depreciation and amortization	**799**	**770**

6 OTHER EXPENSES

EUR thousand	2013	2014
Foreign exchange rate losses	73	40
– thereof: due to the translation of deferred tax assets	*-1*	*0*
Bad debts	53	40
Corrections for previous years	0	37
Losses from the disposal of assets	0	5
Other	1	0
Total other expenses	**127**	**122**

7 OPERATING RESULT/EBIT AND EBITDA

EUR thousand	2013	2014
Operating result/Earnings before interest and taxes (EBIT)	**-7,288**	**-8,383**
Sheduled depreciation of tangible assets	127	135
Sheduled amortization of intangible assets	672	635
EBIT before depreciation and amortization (EBITDA)	**-6,489**	**-7,613**

8 FINANCIAL RESULT

EUR thousand	2013	2014
Interest from cash and cash equivalents	2	0
Interest from available-for-sale financial assets	20	19
Interest and related income	**22**	**19**
Fair value adjustment for derivative instruments	23	0
Other financial income	**23**	**19**
Total financial income	**45**	**19**
Interest on convertible notes issued	-33	-516
Interest and related expenses	**-33**	**-516**
Other finance costs	-1	-1
Total financial expenses	**-34**	**-517**
Total financial result	**11**	**-498**

For the net gains and losses of all financial instruments reference is made to the overview above.

9 TAXES ON INCOME

The reported taxes on income in the amount of EUR -27 thousand (2013: EUR 134 thousand) comprise exclusively taxes recorded by the Company's U.S. subsidiary in Seattle, WA.

EUR thousand	2013	2014
Current tax expenses	29	21
Deferred tax income due to loss carryforwards	0	-48
Deferred tax expenses due to loss carryforwards	105	0
Total taxes on income	**134**	**-27**

For the calculation of deferred taxes of the U.S. subsidiary, a local tax rate of 34% was applied.

Calculation of the applicable tax rate in Germany for the purpose of deferred taxes:

in %	2013	2014
Corporate tax rate	15.0	15.0
Solidarity charge	5.5	5.5
Trade tax charge	14.35	14.35
underlying trade tax rate of assessment	*410*	*410*
Total applicable tax rate in Germany for the purpose of deferred taxes	**30.2**	**30.2**

Tax reconciliation:

EUR thousand	2013	2014
Net loss for the year before taxes on income	**-7,277**	**-8,881**
Expected tax expense	**-2,154**	**-2,682**
applicable tax rate for the Group	*29.6%*	*30.2%*
permanent differences	*-206*	*27*
other foreign taxes	*29*	*27*
effect from other foreign taxes	*0*	*10*
unrecognized tax loss carryforwards	*2,465*	*2,591*
Effective tax expense	**134**	**-27**
Effective tax rate	**-1.8%**	**0.3%**

The expected tax expense for the reporting year has been calculated by applying the tax rate for the Group to the net results before taxes on income. Permanent differences result from non-deductible expenses according to German tax law, from provisions for share-based payments in the form of stock options and from costs related to the Company's capital increases.

10 EARNINGS PER SHARE

The earnings per share (basic) are calculated by dividing the net loss for the year by the weighted-average number of shares issued.

The outstanding stock options and convertible notes granted by the Company are antidilutive according to IAS 33.41 and 33.43 *Earnings per Share.* Therefore, the earnings per share (diluted) equal the earnings per share (basic). The number of shares issued as of the balance sheet date amounted to 15,480,422 (Dec 31, 2013: 13,082,892).

	2013	2014
Net loss for the year (in EUR thousand)	-7,411	-8,854
Weighted-average number of shares issued	11,910,017	13,631,263
Earnings per share (basic and diluted, in EUR)	-0.62	-0.65

NOTES TO THE GROUP BALANCE SHEET

NON-CURRENT ASSETS

11 INTANGIBLE ASSETS

EUR thousand		Software	Licenses/ patents	Development costs	**Total intangible assets**
Jan 1, 2013	**Acquisition costs**	**827**	**2,284**	**3,559**	**6,670**
	Additions	4	0	0	4
	Disposals	-2	-112	0	-114
Dec 31, 2013	**Acquisition costs**	**829**	**2,172**	**3,559**	**6,560**
	Additions	6	0	0	6
	Disposals	-251	-1,021	0	-1,272
Dec 31, 2014	**Acquisition costs**	**584**	**1,151**	**3,559**	**5,294**
Jan 1, 2013	**Accumulated amortization**	**699**	**2,043**	**1,339**	**4,081**
	Additions	63	53	556	672
	Disposals	-2	-111	0	-113
Dec 31, 2013	**Accumulated amortization**	**760**	**1,985**	**1,895**	**4,640**
	Additions	46	35	554	635
	Disposals	-251	-1,021	0	-1,272
Dec 31, 2014	**Accumulated amortization**	**555**	**999**	**2,449**	**4,003**
Dec 31, 2013	**Carrying values**	**69**	**187**	**1,664**	**1,920**
Dec 31, 2014	**Carrying values**	**29**	**152**	**1,110**	**1,291**

12 TANGIBLE ASSETS

EUR thousand		Fixtures/ leasehold improvements	Technical equipment	Other fixed assets	Prepayments and assets under construction	**Total tangible assets**
Jan 1, 2013	**Acquisition costs**	**505**	**2,044**	**71**	**0**	**2,620**
	Additions	0	16	0	0	16
	Disposals	0	-35	0	0	-35
Dec 31, 2013	**Acquisition costs**	**505**	**2,025**	**71**	**0**	**2,601**
	Additions	773	122	10	1	906
	Disposals	-481	-800	-15	0	-1,296
Dec 31, 2014	**Acquisition costs**	**797**	**1,347**	**66**	**1**	**2,211**
Jan 1, 2013	**Accumulated amortization**	**505**	**1,712**	**45**	**0**	**2,262**
	Additions	0	119	8	0	127
	Disposals	0	-35	0	0	-35
Dec 31, 2013	**Accumulated amortization**	**505**	**1,796**	**53**	**0**	**2,354**
	Additions	19	111	5	0	135
	Disposals	-481	-796	-14	0	-1,291
Dec 31, 2014	**Accumulated amortization**	**43**	**1,111**	**44**	**0**	**1,198**
Dec 31, 2013	**Carrying values**	**0**	**229**	**18**	**0**	**247**
Dec 31, 2014	**Carrying values**	**754**	**236**	**22**	**1**	**1,013**

13 ASSETS SCHEDULE

EUR thousand		Intangible assets	Tangible assets	**Total intangible and tangible assets**
Jan 1, 2013	**Acquisition costs**	**6,670**	**2,620**	**9,290**
	Additions	4	16	20
	Disposals	-114	-35	-149
Dec 31, 2013	**Acquisition costs**	**6,560**	**2,601**	**9,161**
	Additions	6	906	912
	Disposals	-1,272	-1,296	-2,568
Dec 31, 2014	**Acquisition costs**	**5,294**	**2,211**	**7,505**
Jan 1, 2013	**Accumulated depreciation/amortization**	**4,081**	**2,262**	**6,343**
	Additions	672	127	799
	Disposals	-113	-35	-148
Dec 31, 2013	**Accumulated depreciation/amortization**	**4,640**	**2,354**	**6,994**
	Additions	635	135	770
	Disposals	-1,272	-1,291	-2,563
Dec 31, 2014	**Accumulated depreciation/amortization**	**4,003**	**1,198**	**5,201**
Dec 31, 2013	**Carrying values**	**1,920**	**247**	**2,167**
Dec 31, 2014	**Carrying values**	**1,291**	**1,013**	**2,304**

14 DEFERRED TAXES

For the Group, deferred taxes arise furthermore as described in the following table:

	Deferred tax assets from temporary differences		Deferred tax liabilities from temporary differences	
EUR thousand	**Dec 31, 2013**	**Dec 31, 2014**	**Dec 31, 2013**	**Dec 31, 2014**
Intangible and tangible assets	93	81	495	334
Current assets	46	45	0	17
Non-current liabilities	0	0	0	31
Current liabilities	5	0	168	96
Total	**144**	**126**	**663**	**478**
Total after netting	**0**	**0**	**519**	**352**

EUR thousand	Dec 31, 2013	Dec 31, 2014
Deferred tax assets due to German tax loss carryforwards	47,925	50,557
Deferred tax assets due to U.S. tax loss carryforwards	134	48
Total deferred tax assets due to tax loss carryforwards	**48,059**	**50,605**
Deferred tax position (net) from temporary differences	-519	-353
Total deferred tax assets	**47,540**	**50,252**
Allowance on deferred tax assets	-47,540	-50,204
Capitalized deferred tax assets	**0**	**48**
Tax loss carryforwards in Germany (Corporation tax)	158,692	167,407
Tax loss carryforwards in Germany (Trade tax)	157,215	165,931
Tax loss carryforwards in the U.S.A. (Corporation tax)	395	140

Since all deferred tax assets and liabilities arising from temporary differences must be settled with the same fiscal authority, in accordance with IAS 12.71 et seqq. *Income Taxes*, a netting of the respective tax income and expenses has been performed.

Since its inception through December 31, 2014, the Company's tax loss carryforwards in Germany amounted to EUR 167 million for corporate taxation and to EUR 166 million for trade taxation (tax loss for 2014 derived from GAAP loss). Furthermore, the Company estimates to increase the accumulated tax loss carryforwards in both aforementioned tax categories by approximately EUR 8 million when filing its tax returns for 2014. According to German tax law, such tax losses have an unlimited carryforward period. As the deductibility of the tax loss carryforwards has been partially challenged by the German tax authorities in the past, it is not certain to which extent these carryforwards will lead to deferred tax income in the future. However, the undisputable part of the tax loss carryforwards amounts to more than EUR 20 million. The resulting deferred tax asset is therefore sufficient to offset the aforementioned deferred tax liability from temporary differences of EUR 352 thousand as of December 31, 2014. Due to the current financial situation of the Company, without sufficient liquidity to achieve the break-even point, valuation allowances have been recognized for the calculated exceeding amount of deferred tax assets at the balance sheet date.

In the reporting year, deferred tax assets were capitalized due to tax loss carryforwards of Epigenomics, Inc. and temporary differences between IFRSs and U.S. tax law. Tax loss carryforwards in the U.S.A. can be utilized for up to 20 years. A utilization of the remaining tax loss carryforward of Epigenomics, Inc. in the amount of EUR 140 thousand in 2015 is very likely according to the Company's business plan.

Changes in capitalized deferred tax assets in the reporting year:

EUR thousand	2013	2014
January 1	**106**	**0**
Deferred tax income/expenses	-105	48
Foreign currency adjustments	-1	0
December 31	**0**	**48**

CURRENT ASSETS

15 INVENTORIES

EUR thousand	Dec 31, 2013	Dec 31, 2014
Consumables, raw materials, supplies	0	162
Semi-finished goods	0	160
Finished goods	275	431
Total inventories	**275**	**753**

16 TRADE RECEIVABLES

Trade receivables primarily include receivables from development partners, customers and licensees. These receivables do not bear interest and are therefore not exposed to any interest rate risk. The carrying amounts of the receivables correspond to their fair values. The maximum default risk corresponded to the carrying value as of the balance sheet date.

EUR thousand	Dec 31, 2013	Dec 31, 2014
Trade receivables, gross	258	347
Allowance for bad debt	0	-40
Trade receivables, net	**258**	**307**

At the balance sheet date, trade receivables in the amount of EUR 190 thousand were not due (Dec 31, 2013: EUR 106 thousand). Further trade receivables in the amount of EUR 22 thousand were not yet invoiced at the balance sheet date (Dec 31, 2013: EUR 122 thousand).

Receivables past due at the balance sheet date:

EUR thousand	Dec 31, 2013	Dec 31, 2014
Trade receivables past due up to 90 days	6	14
Trade receivables past due more than 90 days	30	62
Trade receivables past due, net	**36**	**76**

17 MARKETABLE SECURITIES

The marketable securities in the amount of EUR 780 thousand as of December 31, 2014 (Dec 31, 2013: EUR 750 thousand), are so-called Trust-preferred Securities issued by a wholly owned subsidiary of Deutsche Bank AG. They are recognized as financial instruments available-for-sale according to IAS 39.9 *Financial Instruments: Recognition and Measurement* and are redeemable at the option of the issuer in whole from June 2015 on.

The reported securities are denominated in euro and are subject to the usual market and interest risks. The interest rate risks are price risks and interest rate cash flow risks. The fair value of the marketable securities is identified by their stock exchange quotations at each relevant balance sheet date. The securities have been traded on active markets in the reporting year.

18 CASH AND CASH EQUIVALENTS

Cash comprises of bank deposit and cash in hand. Cash equivalents are defined as instruments being convertible on a short-term basis to a known amount of cash, i.e. highly liquid financial instruments, which carry a very low risk of changes in value.

At the balance sheet date, an amount of EUR 109 thousand of bank deposits was restricted cash.

Cash and cash equivalents decreased to EUR 6,715 thousand at the balance sheet date (Dec 31, 2013: EUR 7,207 thousand). 98% of those funds were denominated in euro at the balance sheet date. The remainder was denominated in U.S. dollar. The total amount was allocated to three different banks on current accounts.

19 OTHER CURRENT ASSETS

EUR thousand	Dec 31, 2013	Dec 31, 2014
Receivables from tax authorities	188	156
Prepaid expenses	162	150
Creditors with debt accounts	0	40
Deposits	11	18
Interest receivables	11	9
Deferred payment plan	10	0
Advance/excess payments	2	0
Other	40	40
– thereof: with a prospective maturity >1 year	*38*	*38*
Total other current assets	**424**	**413**

EQUITY

20 SHARE CATEGORIES AND CAPITAL STRUCTURE

As of December 31, 2014, the share capital of Epigenomics AG comprised exclusively of registered shares with equal rights and a nominal par value of EUR 1.00 each.

Equity structure of the Company as of the balance sheet date:

EUR	Dec 31, 2013	Dec 31, 2014
Share capital	**13,082,892**	**15,480,422**
Authorized Capital	**5,105,727**	**5,404,356**
Authorized Capital 2013/I	*318,589*	*0*
Authorized Capital 2013/II	*4,787,138*	*0*
Authorized Capital 2014/II	*0*	*5,404,356*
Conditional Capital	**5,597,239**	**5,460,646**
Conditional Capital IV	*1,000*	*0*
Conditional Capital V	*102,195*	*0*
Conditional Capital VII	*304,246*	*21,065*
Conditional Capital VIII	*296,648*	*0*
Conditional Capital IX	*4,893,150*	*3,853,375*
Conditional Capital X	*0*	*1,586,206*

The Executive Board is authorized until June 2, 2019, to increase, with the consent of the Supervisory Board, the share capital of the Company once or several times by up to EUR 5,404,356.00 against contribution in cash and/or in kind by issuing new non-par value registered shares (Authorized Capital 2014/II). Subscription rights shall be granted to the shareholders. The new shares can also be subscribed by one or more credit institutions or undertakings acting according to Section 53 paragraph 1 sentence 1 or Section 53b paragraph 1 sentence 1 or paragraph 7 of the German Banking Act (KWG) under the obligation to offer the shares to the shareholders for subscription (indirect subscription right). The Executive Board is, however, authorized to exclude, with the consent of the Supervisory Board, the shareholders' statutory subscription rights in the following events:

- for fractional amounts,
- for capital increases against contribution in kind in order to be able to offer shares to third parties with regard to merger or upon the acquisition of enterprises, parts of enterprises, participation in enterprises or the acquisition of other assets (including receivables),
- for capital increases in cash, to the extent the capital increases are implemented for the purpose of a placement of the new shares in the context of a listing at a foreign stock exchange.

The Executive Board is further authorized to determine the point in time as of which the new shares carry dividend rights in deviation from Section 60 paragraph 2 AktG as well as the further details of the implementation of capital increases from Authorized Capital 2014/II.

Conditional Capital VII cannot be used anymore to grant stock options as the corresponding authorizations for a granting time frame has expired. 21,065 new shares can still be created from Conditional Capital VII upon exercise of granted options from one of the underlying stock option programs (09–13).

The share capital is further conditionally increased by up to EUR 3,853,375.00 by issuance of up to 3,853,375 new non-par value registered shares with a nominal par value of EUR 1.00 per share (Conditional Capital IX). The conditional capital increase is only to be implemented if bonds or participation rights are issued on the basis of the authorization of the Executive Board by resolution of the Annual General Shareholders' Meeting on May 6, 2013, or on the authorization of the Executive Board by resolution of the Annual General Shareholders' Meeting on May 6, 2013, as amended by resolution of the Annual General Shareholders' Meeting of June 3, 2014, until May 5, 2018, and to the extent that

- the holders or creditors of bonds with warrants or conversion rights under bonds or participation rights exercise their option or conversion rights, or
- holders or creditors of bonds or participation rights are obliged to exercise an option or to convert and fulfill this obligation, or
- the Company exercises an election right to grant non-par value shares of the Company instead of paying a cash amount due for payment to the holders or creditors

and to the extent that no cash settlement is granted or treasury shares or shares of another listed company are delivered. The issuance of the new shares occurs at the respective option or conversion price, in each case as further to be determined and specified in accordance with the aforementioned authorization resolution of the Annual General Shareholders' Meeting of May 6, 2013, or in accordance with the authorization resolution of the Annual General Shareholders' Meeting on May 6, 2013, as amended by resolution of the Annual General Shareholders' Meeting of June 3, 2014, or the lower issue price determined in accordance with the authorization resolution of the Annual General Shareholders' Meeting on May 6, 2013, as amended by resolution of the Annual General Shareholders' Meeting of June 3, 2014. The newly issued shares shall carry dividend rights from the commencement of the fiscal year in which the shares are issued, or, as far as legally permissible, if no resolution on the application of the profit of the fiscal year immediately preceding the year of the issuance has been adopted when the new shares are issued, from the commencement of this fiscal year immediately preceding the year of the issuance. The Executive Board is authorized, subject to Supervisory Board approval, to determine the further details concerning the implementation of the conditional capital increase.

In 2014, a total number of 611,775 new shares have been created from the conversion of convertible notes previously issued under the aforementioned amended authorization. At the end of 2014, 18 convertible notes, issued by the Company in 2013, which can be converted by their holders until December 2015 in up to 3,670,650 shares from Conditional Capital IX were still outstanding.

The share capital is further conditionally increased by up to EUR 1,586,206.00 by issuance of up to 1,586,206 new non-par value registered shares with a nominal par value of EUR 1.00 per share (Conditional Capital X). The conditional capital increase is only to be implemented if bonds or participation rights are issued based on the authorization of the Executive Board by resolution of the Annual General Shareholders' Meeting on May 6, 2013, or on the authorization of the Executive Board by resolution of the Annual General Shareholders' Meeting on June 3, 2014, until June 2, 2019, to the extent that

- the holders or creditors of bonds with warrants or conversion rights under bonds or participation rights exercise their option or conversion rights, or
- holders or creditors of bonds or participation rights are obliged to exercise an option or to convert and fulfill this obligation, or
- the Company exercises an election right to grant shares of the Company instead of paying a cash amount due for payment to the holders or creditors

and to the extent that no cash settlement is granted or treasury shares or shares of another listed company are delivered. The issuance of the new shares occurs at the respective option or conversion price, in each case as further to be determined and specified in accordance with the aforementioned authorization resolution dated June 3, 2014. The newly issued shares shall carry dividend rights from the commencement of the fiscal year in which the shares are issued, or, as far as legally permissible, if no resolution on the application of the profit of the fiscal year immediately preceding the year of the issuance has been adopted when the new shares are issued, from the commencement of this fiscal year immediately preceding the year of the issuance. The Executive Board is also authorized, subject to Supervisory Board approval, to determine the further details concerning the implementation of the conditional capital increase.

21 CAPITAL RESERVE

The capital reserve increased from EUR 27,506 thousand at December 31, 2013, to EUR 33,582 thousand at December 31, 2014. Thereby, a net increase of EUR 2,766 thousand was attributable to capital increases from the issuance of new shares from Authorized Capital. A net increase of EUR 3,300 thousand was recognized for the issuance of new shares in connection with the conversion of seven convertible notes. The capital reserve was further increased by an amount of EUR 10 thousand for the issuance of new shares from Conditional Capital for exercised stock options.

22 RETAINED EARNINGS

Retained earnings decreased from EUR -26,469 thousand at December 31, 2013, to EUR -33,880 thousand at December 31, 2014, attributable to the transfer of the Company's net loss for 2013.

23 OTHER COMPREHENSIVE INCOME

The other comprehensive income arises from the revaluation of financial assets available-for-sale not affecting net income. The effective sale of revaluated financial assets available-for-sale leads to a recognition of the cumulated differences through profit or loss.

EUR thousand	2013	2014
January 1	**491**	**250**
Revaluation of marketable securities	241	30
December 31	**250**	**220**

24 CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the long-term return to stakeholders. An optimization of the debt/equity ratio is always considered.

The current liabilities, cash and cash equivalents, the securities available-for-sale and equity attributable to equity holders, comprising subscribed capital, capital reserve (including offset retained earnings) and other comprehensive income are subject to the Group's capital management.

In the reporting period, the Group's equity ratio decreased from 58.3% as of December 31, 2013, to 54.0% as of December 31, 2014.

The Company is not subject to any statutory capital requirements. However, the Company is obliged to issue new shares in connection with granted option rights from its existing stock option programs and in connection with outstanding convertible notes.

LIABILITIES

25 PROVISIONS

Statement of changes in provisions:

EUR thousand	Contract-related provisions	Payroll provisions	Provisions for claims from phantom stock rights	Statutory provisions	Other provisions	Total
January 1, 2013	**188**	**77**	**0**	**70**	**41**	**376**
thereof non-current	*0*	*0*	*0*	*0*	*0*	*0*
Utilization	0	-19	0	-70	-40	-129
Reversal	0	-18	0	0	-1	-19
Additions	0	133	766	40	10	949
Unwinding of discount/ discount rate effect	0	0	0	0	0	0
December 31, 2013	**188**	**173**	**766**	**40**	**10**	**1,177**
thereof non-current	*0*	*0*	*542*	*0*	*0*	*542*
Utilization	0	-50	-13	-40	-9	-112
Reversal	-188	-24	-55	0	0	-267
Additions	0	*29*	869	50	*77*	1,025
Unwinding of discount/ discount rate effect	0	0	0	0	0	0
December 31, 2014	**0**	**128**	**1,567**	**50**	**78**	**1,823**
thereof non-current	*0*	*0*	*1,368*	*0*	*39*	*1,407*

A contract-related provision in the amount of EUR 188 thousand at January 1, 2014, has been reversed completely. It was based on a pending patent litigation. Further loops in these proceedings have decreased the likelihood of a completion of this case before the end of the underlying patent lifetime significantly. Moreover, it is uncertain that the Company will have to pay for any claims even in the scenario of a negative outcome of this litigation.

Payroll provisions were recognized for obligations from bonus commitments (EUR 128 thousand). These provisions may partially as well be utilized beyond a twelve-month timeframe.

Provisions for claims from phantom stock rights (PSRs) were recognized based on the fair value of all issued and outstanding rights at the balance sheet date of the Company's phantom stock programs (PSPs) to current and former employees. Details of the non-current portion of these provisions are shown in the following table:

EUR thousand (except where indicated)	PSP 03–15	PSP 2013	PSP 2014	**Total non-current provisions for claims from PSRs**
Fair value at January 1, 2014	142	400	0	**542**
Fair value at December 31, 2014	**71**	**1,187**	**110**	**1,368**
Earliest date of possible utilization	Jan 1, 2016	July 1, 2016	Oct 1, 2017	Jan 1, 2016
Latest date of possible utilization	Feb 28, 2019	Mar 31, 2019	Sept 30, 2019	Sept 30, 2019

Statutory provisions were recognized for expenses in connection with the Annual General Shareholders' Meeting and other provisions were recognized for various operating obligations which were uncertain at the reporting date regarding their exact amounts and/or the point in time when they will incur. A utilization of both of these categories of provisions is largely expected within the next twelve months.

26 TRADE PAYABLES

The reported trade payables are all non-interest-bearing and are generally due within 30 days.

27 DEFERRED INCOME

As of the balance sheet date, there are no repayment obligations for the Company resulting from deferred income.

EUR thousand	**Dec 31, 2013**	**Dec 31, 2014**
Payments for commercial collaborations	17	0
Payments for granted projects	50	55
Total deferred income	**67**	**55**

28 CONVERTIBLE NOTES ISSUED

Convertible notes issuance from an agreement with YA Global Master SPV Ltd. (YA Global)

In August 2013, the Company entered into an agreement with YA Global securing itself a convertible bond financing for up to EUR 5 million. Under the terms of the agreement, YA Global, over a period of up to two years, is obliged to purchase convertible notes from the Company with a total nominal amount of EUR 5 million at a purchase price of 95% of the nominal amount. The Company may issue the convertible notes in tranches of EUR 500 thousand each at its sole discretion. A tranche comprises of 500 convertible notes in the form of bearer bonds each with a nominal value of EUR 1,000 and transferrable only upon the Company's approval. The convertible notes will only be issued and may only be traded in lots with a total nominal value of EUR 125 thousand.

The notes carry no interest, have a term of nine months and are convertible into Epigenomics shares immediately upon issuance at the discretion of the bearer of the notes. The conversion price equals the average trading price of Epigenomics shares during a five-day period prior to the time of conversion less a 5% discount, but cannot be lower than 80% of the prevailing share price at the time of the issuance of the convertible notes. To the extent permitted by the existing authorization of the Company's Annual General Shareholders' Meeting, the notes can be issued without pre-emptive rights to existing shareholders.

In 2013, we issued two tranches of such convertible notes with a nominal amount of EUR 500 thousand each. Both tranches have been converted completely before the end of 2013. In 2014, no further tranches of such convertible notes have been issued. Therefore, no convertible notes under this agreement were outstanding at December 31, 2014. The Company may still issue up to eight further tranches to YA Global before the end of the term of the agreement (August 17, 2015). At the balance sheet date, the Company still had the authorization to issue convertible notes that may be converted into up to 81,738 shares without offering pre-emptive rights to existing shareholders. Further convertible notes resulting in the issuance of up to an additional 3,118,262 shares may be issued with pre-emptive rights to existing shareholders.

Convertible notes issuance by a pre-emptive rights offering in December 2013

In December 2013, the Company issued 25 convertible notes each denominated at EUR 107 thousand with an issue price of EUR 100 thousand each and an aggregate principal amount of EUR 2.675 million. Each note entitled the holder to convert to 107,000 new ordinary non-par value bearer shares at a conversion price of EUR 5.87 per share. The notes bear no interest (zero coupon).

In the first quarter of the reporting year, four of these convertible notes have been converted into 428,000 new shares against a conversion payment of EUR 2,084 thousand to the Company.

In October 2014, the Company increased its share capital by the issuance of new shares from the Authorized Capital 2014/I with an issue price of EUR 3.08 per share. According to the terms and conditions of the convertible notes, the conversion price for the outstanding notes had to be adjusted subsequently. Hence, each remaining note entitles the holder now to convert to 203,925 new ordinary non-par value registered shares at a conversion price of EUR 3.08 per share. Thereby, the cash amount that each holder has to pay at the conversion remains the same.

After this adjustment, three further notes were converted by their holder into 611,775 new shares against a conversion payment of EUR 1,563 thousand to the Company.

At the balance sheet date, a remainder of 18 notes was still outstanding. These notes may be converted at any time until December 31, 2015. Notes which have not been converted earlier may be

- converted upon maturity
  - into such number of shares that result by dividing the notes' principal amount by the then applicable conversion price (i.e. the conversion price of EUR 3.08 eventually adjusted for dilutive measures during the term) or
  - into 203,925 shares alternatively, in the event that the holder pays the then applicable conversion payment to the Company, or
- redeemed by the Company at the notes' principal amount in cash.

Subsequently to an FDA approval of Epi proColon® before the final maturity of the notes, the Company is further entitled to require a mandatory conversion of all outstanding notes if at any time during the term the XETRA quotation of its shares equals or exceeds, on 20 of 30 consecutive trading days, 150% of the conversion price. In the event of such a mandatory conversion, each note will be converted into

- such number of shares that result by dividing the note's principal amount (EUR 107 thousand) by 140% of the applicable conversion price or
- into 203,925 shares alternatively, in the event that the holder pays the then applicable conversion payment to the Company.

The holder of the notes may claim anytime in 2015 before December 31 an early redemption of their notes at the principal amount, so that the notes are classified as current financial liabilities for the Company.

The convertible notes comprise of a liability element and an equity element. The equity element is presented in equity as "option premium on convertible notes". The effective interest rate of the liability element was 8.1% p.a. on initial recognition.

EUR thousand	
Gross proceeds of the issue of convertible notes in 2013	2,300
Gross proceeds of the issue of convertible notes in 2014	200
Total gross proceeds of the issue of convertible notes	**2,500**
thereof: liability element of convertible notes at issue date	*2,440*
thereof: equity element of convertible notes	*60*
Total expenses related to the issue of the convertible notes for the liability element	-373
thereof: expenses in the reporting year	*-30*
Expenses related to the issue of the convertible notes for the equity element	-9
thereof: expenses in the reporting year	*-1*
Total interest expense	494
thereof: expenses in the reporting year	*486*
Conversion of notes in 2014	-657
Liability element of convertible notes at December 31, 2014	**1,926**

29 OTHER LIABILITIES

EUR thousand	Dec 31, 2013	Dec 31, 2014
Payables due to staff	249	199
Payables due to tax authorities	84	159
Accrued audit fees	65	145
Payables due to social security institutions	0	1
Down payments received	10	0
Other	8	7
Total other liabilities	**416**	**511**

30 FINANCIAL INSTRUMENTS

Primary financial instruments		**as of Dec 31, 2013**		**as of Dec 31, 2014**	
EUR thousand	Valuation principle	Carrying amount	Fair value	Carrying amount	Fair value
Assets					
Loans and receivables	AC	320	320	413	413
Trade receivables		*258*	*258*	*307*	*307*
Other current assets		*62*	*62*	*106*	*106*
Financial assets available-for-sale	FV Rec. Eq.	750	750	780	780
Marketable securities		*750*	*750*	*780*	*780*
Cash and cash equivalents	(n/a)	7,207	7,207	6,715	6,715
Liabilities					
Financial liabilities measured at amortized cost	AC	3,725	3,196	3,032	3,032
Trade payables		*1,030*	*1,030*	*897*	*897*
Convertible notes		*2,461*	*1,932*	*1,926*	*1,926*
Other current liabilities		*234*	*234*	*209*	*209*

AC = Amortized Cost
FV Rec. Eq. = Fair Value Recognized in Equity
FV Rec. PL = Fair Value Recognized in Profit or Loss

NOTES TO THE GROUP CASH FLOW STATEMENT

31 OPERATING ACTIVITIES

Cash flow from operating activities is derived indirectly on the basis of the net loss for the year before taxes on income.

32 INVESTING ACTIVITIES

Cash flow from investing activities is ascertained in respect of payment.

33 FINANCING ACTIVITIES

Cash flow from financing activities is ascertained in respect of payment.

Proceeds from the issue of new shares in the reporting year of EUR 4,178 thousand (2013: EUR 9,215 thousand) were related to the Company's capital increase from Authorized Capital in October 2014. Proceeds from the issue of convertible notes in the reporting year of EUR 200 thousand (2013: EUR 3,250 thousand) were late payments from a subscriber of our convertible bond issuance in December 2013.

34 CASH CONSUMPTION

The total of cash flow from operating activities and cash flow from investing activities less transactions in securities is monitored by the Company as "cash consumption" key figure.

EUR thousand	2013	2014
Cash flow from operating activities	-6,505	-7,221
Cash flow from investing activities	-20	-874
Net proceeds from transactions in securities	0	0
Cash consumption	**-6,525**	**-8,095**

RISKS AND RISK MANAGEMENT

35 GENERAL

For a comprehensive overview of the risks the Company is facing, reference is made to the "Opportunities and Risks" section of the Group management report 2014.

36 LIQUIDITY RISK

The liquidity risk of Epigenomics results from the Group's potential inability to meet its financial liabilities, i.e. not paying its suppliers, creditors or lenders. It is therefore the task of the cash and liquidity management to assure the individual Group companies' liquidity at any time. The expected cash inflows and outflows are constantly monitored to ensure short-term liquidity. These activities are supported by internal cash forecasts and a corresponding strategy of managing time deposits with the Company's house banks.

Furthermore, Epigenomics constantly monitors the capital markets and – if required – undertakes all necessary efforts to raise fresh capital in order to avoid illiquidity.

Epigenomics has a strict cost management in place to avoid unnecessary spending. On the procurement side, the Company always tries to reduce purchase prices by closing favorable contracts and negotiating all relevant conditions and takes advantage of granted terms of payment.

37 FOREIGN CURRENCY EXCHANGE RISK

The Group constantly faces a foreign currency exchange risk mainly through the fluctuations between the euro and the U.S. dollar. The risk mainly originates from the need to purchase goods and services partially in U.S. dollar. Also, certain services of the Group are sold in U.S. dollar. The Group constantly tries to mitigate or to eliminate this risk as far as possible. Wherever possible, the Group exerts its influence in negotiations to avoid this risk and mainly uses derivative financial instruments in the shape of forward contracts to minimize this risk. These instruments are recognized at fair value on the consolidated balance sheet as current assets or current liabilities.

The foreign currency exchange risk between the euro and the U.S. dollar has not been addressed yet by the Company at the balance sheet date, as it mostly depends on our future activities in the U.S.A., whereby timing and size of these activities depend on the FDA decision on approval for Epi proColon®.

Due to the limited volume of positions denominated in foreign currencies at the balance sheet date, an increase or a decrease of the euro to the U.S. dollar by 10% each, provided that all other assumptions were to remain unchanged, would (as in the previous year) not have led to substantial changes in the net result of the Group or in its equity.

38 CREDIT RISK

The Company's overall credit risk is low. Securities have only been acquired under careful observation of the Company's investment policy, i.e. a strict selection by the credit ratings of the issuers has been conducted. However, the worldwide financial market crisis over the last years has shown that even top-rated issuers can suddenly face a threatening situation or even collapse. Additionally, it has become clear that there is a pending risk of illiquid markets.

Trade receivables basically concern renowned commercial partners with acceptable ratings. Whenever possible, payments are collected upfront. In all cases, the maximum amount at risk can be derived from the carrying values.

39 INTEREST RATE RISK

The Group holds interest-bearing financial instruments in the form of cash and cash equivalents (daily and time deposits) and of selected securities.

As the Group's time deposits have usually maturities of up to a maximum of 360 days and given the historically low interest rates on the international capital markets, the interest rate risk of these financial instruments can be considered negligible. Being free of long-term financial debt, the Group faces no interest rate risk on the borrowing side at all.

However, the securities held by the Group with maturities of more than one year are subject to an interest rate risk as the terms and conditions for interest payments depend on the development of the long-term interest rates on the capital markets. In a worst-case scenario, the Group would receive no interest payments at all from the issuers of these securities but in no case will it have a negative interest income (i.e. it will not *pay* interest).

INFORMATION ON SHARE-BASED PAYMENT PLANS

40 STOCK OPTION PROGRAMS

As of the balance sheet date, the Company had three stock option programs in place:

SOP 06–10: Program is expired. No stock options can be granted from this program anymore and no new shares can be created anymore upon exercise of granted options from this program.

SOP 09–13: Program is expired. No stock options can be granted from this program anymore. 21,065 new shares can be created upon exercise of granted and outstanding options from this program.

SOP 11–15: No granted stock options from this program are outstanding.

Details of the programs 09–13 and 11–15 can be found in the invitation to the Company's 2009 and 2011 Annual General Shareholders' Meeting, respectively. Both documents are available on the Company's website *(www.epigenomics.com)*.

	Option holdings	Issued	Forfeited	Cancelled	Exercised	Option holdings	Options exercisable
	as of Dec 31, 2013 (Dec 31, 2012)		**in 2014 (2013)**			**as of Dec 31, 2014 (Dec 31, 2013)**	
Option holder							
Dr. Taapken (CEO/CFO)	**0**	**0**	**0**	**0**	**0**	**0**	**0**
	(80,000)	(0)	(80,000)	(0)	(0)	(0)	(0)
Dr. Staub (COO)	**0**	**0**	**0**	**0**	**0**	**0**	**0**
(since April 1, 2013)	(n/a)	(n/a)	(n/a)	(n/a)	(n/a)	(n/a)	(n/a)
Other option holders	**106,926**	**0**	**79,195**	**0**	**6,666**	**21,065**	**0**
	(317,721)	0	(194,061)	(16,734)	(0)	(106,926)	(6,666)
All option holders	**106,926**	**0**	**79,195**	**0**	**6,666**	**21,065**	**0**
	(397,721)	0	(274,061)	(16,734)	(0)	(106,926)	(6,666)
Average exercise price	**18.93**	**n/a**	**21.19**	**n/a**	**2.51**	**15.65**	**n/a**
(in EUR)	(11.79)	(n/a)	(9.45)	(4.53)	(n/a)	(18.93)	(6.90)

Terms of outstanding stock options:

Term	Weighted-average exercise price (in EUR)	Stock options issued and outstanding	Weighted-average exercise price (in EUR)	Stock options issued and outstanding
	as of Dec 31, 2013		as of Dec 31, 2014	
2014	22.50	72,529	0	0
2017	16.13	19,065	16.13	19,065
2018	7.86	8,666	11.05	2,000
2019	2.51	6,666	0	0
Total	**18.93**	**106,926**	**15.65**	**21,065**

The weighted-average term of the outstanding stock options at December 31, 2014, was 2.3 years (Dec 31, 2013: 1.4 years).

41 PHANTOM STOCK PROGRAMS

As of the balance sheet date, the Company has three phantom stock programs (PSPs)/virtual share plans in place as an incentive scheme for management and staff by granting so-called phantom stock rights (PSRs) from such programs to the beneficiaries. The programs define a PSR as a conditional claim of its holder against the Company for a future payment in cash of a premium to the benefit of the holder.

Phantom stock program 03–15 (PSP 03–15)

PSP 03–15 has been established in 2013 to serve as a transformation tool for outstanding stock options at that time. Executive Board and Supervisory Board of the Company therefore had decided to offer PSRs from the PSP 03–15 to all stock option holders who were employees or members of the Executive Board at that time and to a dedicated number of former employees of the Company who still held stock options. For each stock option right that has been returned to the Company in connection with an exchange offer, one PSR from PSP 03–15 has been granted to its holder. Each PSR from PSP 03–15 became the legal successor of the returned stock option right then and was on equal terms with its economic value. Hence, the term of each PSR from PSP 03–15 equals the remaining term of the returned stock option right. These PSRs will expire without compensation at that point in time when the stock option right that has been returned in exchange would have been expired. After the exchange of previously unvested stock option rights against PSRs, the vesting rules of the underlying SOPs applied equally with respect to the vesting of the PSRs. PSRs which have been issued in exchange against vested stock options, have also vested immediately. Vested PSRs that had been obtained in exchange for stock options from the SOP 06–10 can be exercised immediately. Vested PSRs that had been obtained in exchange for stock options from the SOPs 09–13 and 11–15 can only be exercised when the holding or waiting period of the stock options that were returned in exchange is or would have been expired for its holder.

The exercise price of a PSR from PSP 03–15 equals the exercise price of the stock option right that had been returned in exchange. The exercise of such a PSR simulates the exercise of the former stock option right in a so-called "ExerSale" transaction. Unlike the exercise of stock option rights, the holder of a PSR is not entitled to obtain a share of the Company by the exercise of a PSR. Upon the exercise of a PSR from PSP 03–15, the holder of the right obtains a claim against the Company on the payment of the PSR premium. The PSR premium is defined as the absolute difference between the then current market price of the Epigenomics share and the exercise price of the PSR. The holder of a PSR is entitled to exercise his right during the exercise period when the strike price at the exercise day is higher than the base value. Thereby, the strike price equals the arithmetic average of the XETRA closing rates at the Frankfurt stock exchange of the five consecutive trading days prior to the exercise day. By exercising the PSR, the holder earns an entitlement to obtain the "PSR premium" from the Company. Thereby, the PSR premium equals the absolute difference between strike price and base value of the right without any limitation. In contrast to the exercise of stock option rights, the exercise of PSR is not compulsory subject to pre-defined exercise periods (trading windows) and can be done all-the-year. Nevertheless, the Executive Board and the Supervisory Board may stipulate compulsory exercise periods for holders of PSRs who are current employees of the Company. This shall especially apply for holders of PSRs who may be identified as "insiders" according to the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG). It is the sole discretion of the Executive Board of the Company to define and to announce such exercise periods to the employees of the Company holding PSRs. Such exercise periods as announced by the Executive Board will always apply then simultaneously to the Executive Board members.

In case of a takeover or a mandatory offer for the shares of the Company according to the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz – WpÜG), the holders of vested PSRs become entitled to exercise these rights completely. This also applies if the waiting period for these rights has not expired yet. The exercise right for the PSR holder shall only apply if the offered consideration exclusively comprises of a cash settlement and if the bidder has gained control over the Company. In such a takeover case, the PSR premium equals the difference between the cash amount which was finally offered to the shareholders as part of a takeover or a mandatory offer and the base value of the PSR.

As PSRs will be settled in cash at their exercise, the Company had to record a provision based on the fair values of the outstanding rights.

Phantom stock program 2013 (PSP 2013)

PSP 2013 has been approved by the Executive Board and the Supervisory Board of the Company in May 2013. In the framework of PSP 2013, a total number of up to 740,000 phantom stock rights (PSRs) has been issued thereof. This program has expired in the reporting year. Eligible beneficiaries of this program were the members of the Executive Board and the employees of the Group, with an unterminated service or employment agreement with a Group company. The power of decision on the issuance of PSRs from this program to employees of the Company and to executives and employees of the subsidiaries was with the Executive Board and the power of decision on the issuance of such PSRs to the members of the Executive Board was with the Supervisory Board.

A certain amount of PSRs granted to a beneficiary at a certain point in time is defined as a tranche. The PSRs of each tranche which were issued to beneficiaries who are not executives of the Company at the issuance date, started to vest from the beginning of the first full calendar quarter over the three years following their issuance in five equal parts, beginning with the first day of the fifth full calendar quarter after the issuance of the tranche. Thereafter, the further four of the five parts will vest each after the end of the following four half-years. Thus, the last of the five parts will vest after the last day of the twelfth full calendar quarter after the issuance of the tranche and therefore at the end of a three-year waiting period. PSRs of each tranche can be initially exercised after their vesting, but not before the end of the waiting period. The term of the PSRs begins with their issuance and ends five years after the beginning of their vesting period. Rights which were not exercised upon the end of their term will expire without

compensation. Basically, PSRs can be exercised anytime in the two years between the end of their waiting period and the end of their term (exercise period). Nevertheless, Executive Board and Supervisory Board are allowed to stipulate adherence to timing restrictions in the exercise periods. This shall apply especially for holders of rights who are identified by the Executive Board as "insider" in the meaning of Section 15b of the German Securities Trading Act (WpHG). The Executive Board of the Company dutifully reserves the right to establish such timing restrictions in the exercise periods and to announce such restrictions in the exercise periods to rights holders who are employees of the Company at that point in time. Timing restrictions in exercise periods as announced by the Executive Board will always apply simultaneously to PSRs held by the Executive Board members themselves.

At the issuance of a PSR tranche, a so-called "base value" of the rights has been determined. This base value equaled the average of the XETRA closing rates of the Epigenomics share at the Frankfurt stock exchange from the last five trading days before the issuance. The holder of a PSR is entitled to exercise his right during the exercise period when the strike price at the exercise day is higher than the base value. Thereby, the strike price equals the arithmetic average of the XETRA closing rates at the Frankfurt stock exchange of the five consecutive trading days prior to the exercise day. By exercising the PSR, the holder earns an entitlement to obtain the "PSR premium" from the Company. Thereby, the PSR premium equals the absolute difference between the strike price and the base value of the right up to a maximum of EUR 8.00.

Any PSRs held by a beneficiary that have not yet vested expire without compensation in any case upon termination of the service or employment agreement by the beneficiary himself or if the service or employment agreement has been terminated by the Company for cause. Any PSRs of a beneficiary that have not yet vested shall persist in any case upon termination of the service or employment agreement by the Company due to business operations. In cases of termination of the service or employment agreement in mutual consent it is up to the sole discretion of the Executive Board or the Supervisory Board to decide whether the PSRs of the beneficiary that have not vested yet at that point in time shall persist.

In case of a takeover or a mandatory offer for the shares of the Company according to the German Securities Acquisition and Takeover Act (WpÜG), the holders of vested PSRs become entitled to exercise these rights completely. This also applies if the waiting period for these rights has not expired yet. The exercise right for the PSR holder will only apply if the offered consideration exclusively comprises of a cash settlement and if the bidder has gained control over the Company. In such a takeover case, the PSR premium equals the difference between the cash amount which was finally offered to the shareholders as part of a takeover or a mandatory offer and the base value of the PSR. However, the limitation of the PSR premium to EUR 8.00 will still apply in such case.

As PSRs will be settled in cash at their exercise, the Company had to record a provision based on the fair values of the outstanding rights.

Phantom stock program 2014 (PSP 2014)

PSP 2014 has been approved by the Executive Board and the Supervisory Board of the Company in May 2014. In the framework of PSP 2014, a total number of up to 344,833 phantom stock rights (PSRs) has been issued thereof. Eligible beneficiaries of this program were the members of the Executive Board and the employees of the Group with an unterminated service or employment agreement with a Group company. The power of decision on the issuance of PSRs from this program to employees of the Company and to executives and employees of the subsidiaries was with the Executive Board and the power of decision on the issuance of such PSRs to the members of the Executive Board was with the Supervisory Board.

A certain amount of PSRs granted to a beneficiary at a certain point in time is defined as a tranche. The PSRs of each tranche which were issued to beneficiaries who are not executives of the Company at the issuance date, started to vest from the beginning of the first full calendar quarter over the three years following their issuance in five equal parts, beginning with the first day of the fifth full calendar quarter after the issuance of the tranche. Thereafter, the further four of the five parts will vest each after the end of the following four six-month periods. Thus, the last of the five parts will vest after the last day of the twelfth full calendar quarter after the issuance of the tranche and therefore at the end of a three-year waiting period. PSRs of each tranche can be initially exercised after their vesting, but not before the end of the waiting period. The term of the PSRs begins with their issuance and ends five years after the beginning of their vesting period. Rights which were not exercised upon the end of their term will expire without compensation. Basically, PSRs can be exercised anytime in the two years between the end of their waiting period and the end of their term (exercise period). Nevertheless, Executive Board and Supervisory Board are allowed to stipulate adherence to timing restrictions in the exercise periods. This shall apply especially for holders of rights who are identified by the Executive Board as "insider" in the meaning of Section 15b of the German Securities Trading Act (WpHG). The Executive Board of the Company dutifully reserves the right to establish such timing restrictions in the exercise periods and to announce such restrictions in the exercise periods to rights holders who are employees of the Company at that point in time. Timing restrictions in exercise periods as announced by the Executive Board will always apply simultaneously to PSRs held by the Executive Board members themselves.

At the issuance of a PSR tranche, a so-called "base value" of the rights has been determined. This base value equaled the average of the XETRA closing rates of the Epigenomics share at the Frankfurt stock exchange from the last five trading days before the issuance. The holder of a PSR is entitled to exercise his right during the exercise period when the strike price at the exercise day is higher than the base value. Thereby, the strike price equals the arithmetic average of the XETRA closing rates at the Frankfurt stock exchange of the five consecutive trading days prior to the exercise day. By exercising the PSR, the holder earns an entitlement to obtain the "PSR premium" from the Company. Thereby, the PSR premium equals the absolute difference between the strike price and the base value of the right up to a maximum of EUR 12.00.

If a holder of vested PSRs leaves the Company before the expiry date of these rights, he remains entitled to these vested rights until the expiry date. In such case, the strike price of his rights will be limited to the arithmetic average of the XETRA closing rates at the Frankfurt stock exchange of the five consecutive trading days prior to the final termination day of his employment contract with the Company. Any PSRs held by a beneficiary that have not yet vested expire without compensation in any case upon termination of the service or employment agreement by the beneficiary himself or if the service or employment agreement has been terminated by the Company for cause. Any PSRs of a beneficiary that have not yet vested shall persist in any case upon termination of the service or employment agreement by the Company due to business operations. In cases of termination of the service or employment agreement in mutual consent it is up to the sole discretion of the Executive Board or the Supervisory Board to decide whether the PSRs of the beneficiary that have not vested yet at that point in time shall persist.

In case of a takeover or a mandatory offer for the shares of the Company according to the German Securities Acquisition and Takeover Act (WpÜG), the holders of vested PSRs become entitled to exercise these rights completely. This also applies if the waiting period for these rights has not expired yet. The exercise right for the PSR holder will only apply if the offered consideration exclusively comprises of a cash settlement and if the bidder has gained control over the Company. In such a takeover case, the PSR premium equals the difference between the cash amount which was finally offered to the shareholders as part of a takeover or a mandatory offer and the base value of the PSRs. However, the limitation of the PSR premium to EUR 12.00 will still apply in such case.

As PSRs will be settled in cash at their exercise, the Company had to record a provision based on the fair values of the outstanding rights.

42 DETAILS ON PHANTOM STOCK RIGHTS ISSUANCES

Phantom stock program 03–15 (PSP 03–15)

PSP 03–15 Beneficiaries	Reporting year	Rights held as of Jan 1	Rights granted	Rights forfeited	Rights cancelled	Rights exercised	Rights held as of Dec 31
Dr. Taapken (CEO/CFO)	**2014**	**40,000**	**0**	**0**	**0**	**0**	**40,000**
	2013	0	40,000	0	0	0	40,000
Dr. Staub (COO)	**2014**	**38,800**	**0**	**0**	**0**	**0**	**38,800**
	2013	0	38,800	0	0	0	38,800
Other beneficiaries	**2014**	**130,861**	**0**	**11,132**	**0**	**3,650**	**116,079**
	2013	0	136,861	6,000	0	0	130,861
Total	**2014**	**209,661**	**0**	**11,132**	**0**	**3,650**	**194,879**
	2013	0	215,661	6,000	0	0	209,661
Average base value	**2014**	**9.24**	**n/a**	**21.57**	**n/a**	**2.51**	**8.66**
(in EUR)	2013	n/a	9.38	14.12	n/a	n/a	9.24

The aggregated, adjusted fair value of the PSRs granted under PSP 03–15 amounted to EUR 269 thousand at the balance sheet date (Dec 31, 2013: EUR 366 thousand). It was recognized as a non-current provision of EUR 71 thousand (2013: EUR 142 thousand) and a current provision of EUR 198 thousand (2013: EUR 224 thousand). The following data were applied:

	Dec 31, 2013	Dec 31, 2014
Total number of outstanding PSRs from PSP 03–15	209,661	194,879
Weighted-average term of outstanding rights in years	4.0	2.9
Fair value of one PSR (in EUR) (weighted average)	1.85	1.38
Applied share price volatility (in %) (weighted average)	77.78	91.92
Risk-free interest rate (in %) (weighted average)	0.67	-0.09
Assumed staff fluctuation (in %)	2.4	0.6
Expected dividend yield (in %)	0.0	0.0
Aggregate maximum payments if PSRs will be exercised (in EUR thousand)	(n/a)	(n/a)

A total number of 174,875 outstanding rights granted from PSP 03–15 have been vested before or at the balance sheet date. The expiry dates of these rights range from December 31, 2015, until February 28, 2019.

The fair value of these PSRs was calculated by using the binomial approach based on the Cox-Ross-Rubinstein model. It was assumed that the rights will be exercised after their waiting period if the market price of the shares exceeds the base value of the PSRs by more than 10%.

The risk-free interest rates are derived from the yield curve of German government bonds at the valuation date. The volatility of the share price can be derived from the historical volatility of the shares (according to Bloomberg data) over the youngest past period equaling the remaining term of the rights. For adjustment purposes, a constant staff fluctuation was assumed based on the historical fluctuation of the Company's staff over the past three years if the rights had not yet vested. No dividend payments were assumed during the term of the rights. The aggregate maximum payment to be made by the Company if these rights will be exercised cannot be calculated as the program includes no cap for the PSR premium.

Phantom stock program 2013 (PSP 2013)

PSP 2013 Beneficiaries	Reporting year	Rights held as of Jan 1	**Rights** granted	forfeited	cancelled	exercised	Rights held as of Dec 31
Dr. Taapken (CEO/CFO)	**2014**	**110,000**	**0**	**0**	**0**	**0**	**110,000**
	2013	0	110,000	0	0	0	110,000
Dr. Staub (COO)	**2014**	**95,000**	**20,000**	**0**	**0**	**0**	**115,000**
	2013	0	95,000	0	0	0	95,000
Other beneficiaries	**2014**	**515,000**	**0**	**0**	**0**	**0**	**515,000**
	2013	0	515,000	0	0	0	515,000
Total	**2014**	**720,000**	**20,000**	**0**	**0**	**0**	**740,000**
	2013	0	720,000	0	0	0	720,000
Average base value	**2014**	**1.77**	**6.15**	**n/a**	**n/a**	**n/a**	**1.89**
(in EUR)	2013	n/a	1.77	n/a	n/a	n/a	1.77

The aggregated, adjusted fair value of the PSRs granted under PSP 2013 in the reporting year amounted to EUR 1,187 thousand at the balance sheet date (Dec 31, 2013: EUR 400 thousand). It was recognized as a non-current provision. The following data were applied:

	Dec 31, 2013	**Dec 31, 2014**
Total number of outstanding PSRs from PSP 2013	720,000	740,000
Weighted-average term of outstanding rights in years	4.7	3.7
Fair value of one PSR (in EUR) (weighted average)	2.57	2.29
Applied share price volatility (in %) (weighted average)	76.67	92.37
Risk-free interest rate (in %) (weighted average)	0.76	-0.08
Assumed staff fluctuation (in %)	8.5	5.1
Expected dividend yield (in %)	0.0	0.0
Aggregate maximum payments if PSRs will be exercised (in EUR thousand)	5,760	5,920

A total number of 140,000 rights granted from PSP 2013 have been vested before or at the balance sheet date. The expiry dates of these rights range from June 30, 2018, until March 31, 2019.

The fair value of these PSRs was calculated by using the binomial approach based on the Cox-Ross-Rubinstein model. It was assumed that the rights will be exercised in the fourth year after the grant date if the market price of the shares exceeds the base value of the PSRs by more than 20% or in the fifth year after the grant date if the market price of the shares exceeds the base value of the PSRs by more than 10%. An earlier exercise of the rights is not allowed according to the program conditions.

The risk-free interest rates are derived from the yield curve of German government bonds at the valuation date. The volatility of the share price can be derived from the historical volatility of the shares (according to Bloomberg data) over the youngest past period equaling the remaining term of the rights. For adjustment purposes, a constant staff fluctuation was assumed based on the historical fluctuation of the Company's staff over the past three years. No dividend payments were assumed during the term of the rights.

Phantom stock program 2014 (PSP 2014)

PSP 2014 Beneficiaries	Reporting year	Rights held as of Jan 1	**Rights** issued	forfeited	cancelled	exercised	Rights held as of Dec 31
Dr. Taapken (CEO/CFO)	**2014**	**0**	**73,333**	**0**	**0**	**0**	**73,333**
	2013	0	0	0	0	0	0
Dr. Staub (COO)	**2014**	**0**	**60,000**	**0**	**0**	**0**	**60,000**
	2013	0	0	0	0	0	0
Other beneficiaries	**2014**	**0**	**211,500**	**0**	**0**	**0**	**211,500**
	2013	0	0	0	0	0	0
Total	**2014**	**0**	**344,833**	**0**	**0**	**0**	**344,833**
	2013	0	0	0	0	0	0
Average base value	**2014**	**n/a**	**3.23**	**n/a**	**n/a**	**n/a**	**3.23**
(in EUR)	2013	n/a	n/a	n/a	n/a	n/a	n/a

The aggregated, adjusted fair value of the PSRs granted under PSP 2014 amounted to EUR 110 thousand at the balance sheet date. It was recognized as a non-current provision. The following data were applied:

	Dec 31, 2013	**Dec 31, 2014**
Total number of outstanding PSRs from PSP 2014	0	344,833
Weighted-average term of outstanding rights in years		4.8
Fair value of one PSR (in EUR) (weighted average)		1.93
Applied share price volatility (in %) (weighted average)		85.49
Risk-free interest rate (in %) (weighted average)		-0.01
Assumed staff fluctuation (in %)		6.3
Expected dividend yield (in %)		0.0
Aggregate maximum payments if PSRs will be exercised (in EUR thousand)		4,138

None of the PSRs granted from PSP 2014 according to the table on page 93 has been vested before or at the balance sheet date. The expiry date of these rights is September 30, 2019.

The fair value of these PSRs was calculated by using the binomial approach based on the Cox-Ross-Rubinstein model. It was assumed that the rights will be exercised in the fourth year after the grant date if the market price of the shares exceeds the base value of the PSRs by more than 20% or in the fifth year after the grant date if the market price of the shares exceeds the base value of the PSRs by more than 10%. An earlier exercise of the rights is not allowed according to the program conditions.

The risk-free interest rates are derived from the yield curve of German government bonds at the valuation date. The volatility of the share price can be derived from the historical volatility of the shares (according to Bloomberg data) over the youngest past period equaling the remaining term of the rights. For adjustment purposes, a constant staff fluctuation was assumed based on the historical fluctuation of the Company's staff over the past three years. No dividend payments were assumed during the term of the rights.

OTHER INFORMATION

43 INFORMATION ON THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD OF THE COMPANY AND THEIR REMUNERATION

The Executive Board of the Company comprises of Dr. Thomas Taapken as its Chief Executing Officer and Chief Financial Officer and of Dr. Uwe Staub as its Chief Operating Officer.

The remuneration of the members of the Company's Executive Board is composed of a fixed and a variable component. The variable amount is determined on the basis of a variety of criteria, including the achievement of individual performance goals and Company performance goals, which are set by the Supervisory Board on a yearly basis. Apart from the fixed and the variable component, a third remuneration component comprises a long-term performance-based compensation in the form of phantom stock rights (PSRs). In addition, the Executive Board members are beneficiaries of a D&O insurance with excess according to the statutory minimum amount and receive full reimbursement of their business travel expenses by the Company.

In 2014, the total remuneration of the members of the Executive Board amounted to EUR 889 thousand (2013: EUR 733 thousand) based on the granted benefits and was comprised as follows:[1]

EUR thousand	2013	2014
Fixed remuneration	404	460
One-year variable compensation	200	217
Multi-year variable compensation	129	212
Total remuneration (granted benefits)	**733**	**889**

[1] *The first-time adoption of the remuneration tables recommended by the German Corporate Governance Code (the "Code") in the "Remuneration Report" of our Group management report leads to a restricted comparability of these tables with the respective disclosure in our annual report 2013. The presentation of previous year's numbers has been amended here accordingly where necessary.*

The multi-year variable compensation of the Executive Board members in 2014 comprised grants of 153,333 PSRs (2013: 205,000 PSRs).

Based on the allocations (cash payments), the remuneration of the members of the Executive Board in the reporting year amounted to EUR 808 thousand (2013: EUR 466 thousand) and was comprised as follows:

EUR thousand	2013	2014
Fixed remuneration	404	460
One-year variable compensation	62	348
Multi-year variable compensation	0	0
Total remuneration (allocations)	**466**	**808**

In case of a change of control, both Executive Board members are entitled to terminate their service agreements and would in such case be entitled to receive payment of the fixed compensation amount for the time remaining until his service agreement would have expired but in no case such payment will exceed 150% of the severance payment cap according to Section 4.2.3 of the German Corporate Governance Code.

The composition of the Supervisory Board of the Company remained unchanged in 2014. The members of the Board are Mr. Heino von Prondzynski, Einsiedeln (CH), as its chairman as well as Mrs. Ann Clare Kessler, Ph.D., Rancho Santa Fe, CA (U.S.A.) and Prof. Dr. Günther Reiter, Pfullingen (GER).

The remuneration structure for the Supervisory Board is based on an annual cash retainer (fixed remuneration) and meeting-related payments (variable remuneration). The remuneration does not comprise any performance-related elements or long-term incentive components. In 2014, total remuneration of the members of the Supervisory Board amounted to EUR 206 thousand and was comprised as follows:

EUR thousand	2013	2014
Fixed remuneration	85	170
Variable remuneration	36	36
Total remuneration	**121**	**206**

Further details to the composition of the Executive Board and the Supervisory Board and details of the remuneration of their members in the reporting year can be found in the “Remuneration Report” section of the Group management report 2014.

44 OTHER FINANCIAL OBLIGATIONS

For the Epigenomics Group, other financial obligations arise from a lease at the Berlin location. For the office space at Geneststrasse 5, there is a fixed-term lease with a term expiring on April 30, 2020. Until this date, a total rent of approximately EUR 554 thousand (undiscounted) has to be paid. The U.S. affiliate is located in Seattle, WA, with another postal address in Germantown, MD. In both locations, the Company has rented office space which can be terminated on a short-term basis.

In the previous years, Epigenomics acquired numerous exclusive licenses to third-party intellectual property. This means that there are some obligations to pay minimum license fees in years to come. Additionally, Epigenomics has the obligation to reimburse most of those third parties for costs incurred in connection with the maintenance and the prosecution of the licensed rights. Those costs are mainly charges for patent attorneys or office actions and are difficult to forecast regarding their amounts and timing. The expected amount due to various licensors stands at approximately EUR 115 thousand p.a. for the years 2015 and 2016.

Due to contracts with third parties, at the balance sheet date, Epigenomics had payment obligations of more than EUR 1,335 thousand for goods and services to be received in 2015 (including goods and services related to the Company's ADMIT study in the amount of approximately EUR 700 thousand). However, as delivery dates and effective delivery quantities and qualities are to some extent uncertain, the future payments resulting from those contractual obligations could also be lower.

45 INFORMATION ON THE AUDITOR OF THE COMPANY

As in the previous years, UHY Deutschland AG has been chosen as the Company's auditing firm for the financial year 2014. During the reporting year, a total amount of EUR 107 thousand (2013: EUR 118 thousand) has been expensed for miscellaneous services of this auditing firm for Epigenomics AG. Details are shown in the following table:

EUR thousand	2013	2014
Costs for audit services	77	87
Costs for other confirmation services	38	20
Costs for other services	3	0
Total	**118**	**107**

The costs disclosed for the annual audits are related to the audits on the individual financial statements of Epigenomics AG according to German GAAP as well as on the consolidated financial statements for the Epigenomics Group according to IFRSs. Other confirmation services occurred for critical reviews of the quarterly reports.

46 STATEMENT OF THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD OF EPIGENOMICS AG PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG) WITH RESPECT TO THE GERMAN CORPORATE GOVERNANCE CODE

In October 2014, the Executive Board and the Supervisory Board of the Company issued an updated Declaration of Compliance in accordance with Section 161 of the German Stock Corporation Act (AktG). The declaration has been published on the Company's website *(www.epigenomics.com/en/news-investors/investors/corporate-governance/declaration-of-compliance.html).*

47 INFORMATION ON OTHER TRANSACTIONS WITH RELATED PARTIES

At the reporting date, the Company's payables due to members of its Executive Board amounted to EUR 20 thousand (Dec 31, 2013: EUR 2 thousand) and the liabilities due to members of its Supervisory Board amounted to EUR 110 thousand (Dec 31, 2013: EUR 59 thousand).

48 CLEARED FOR PUBLICATION

These consolidated financial statements have been approved and cleared for publication by the Executive Board of the Company on March 10, 2015.

Berlin, March 10, 2015

The Executive Board

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Berlin, March 10, 2015

The Executive Board

AUDITOR'S REPORT

We have audited the Consolidated Financial Statements prepared by Epigenomics AG, Berlin, comprising the Group balance sheet, the Group statement of profit or loss and other comprehensive income, statement of changes in Group equity, Group cash flow statement and the Notes to the Consolidated Financial Statements, together with the Group management report for the business year from January 1 to December 31, 2014. The preparation of the Consolidated Financial Statements and the Group management report in accordance with IFRS, as adopted by the European Union (EU), and the additional requirements of German commercial law pursuant to Section 315a paragraph 1 HGB (Handelsgesetzbuch: German Commercial Code) and supplementary provisions of the articles of association are the responsibility of the parent company's management. Our responsibility is to express an opinion on the Consolidated Financial Statements and on the Group management report based on our audit.

We conducted our audit of the Consolidated Financial Statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors (Institut der Wirtschaftsprüfer) in Germany. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the Consolidated Financial Statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the Consolidated Financial Statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements and Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the Consolidated Financial Statements comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a paragraph 1 HGB and supplementary provisions of the articles of association and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the Consolidated Financial Statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Furthermore, not intended to qualify our opinion, we point out that the Consolidated Financial Statements are prepared on a going concern basis of the Group. However, based on the current budget and projected income the available liquidity at balance sheet date is not sufficient to sustain the Group's operations over the following twelve months.

In this regard, we refer to the explanations regarding financial risks in the Consolidated Management Report, in particular to the sections "Financial opportunities and risks" and "Outlook on financial situation". Here it is stated "Without any other alternative cash inflows from financing activities before that point in time, our cash runway would not be long enough to reach into 2016 so that our continued existence would be threatened. In such a scenario, while running out of funds, the Company would have to file for insolvency."

In consideration of available liquidity of EUR 7.5 million (cash in hand, balance at banks and marketable securities) at balance sheet date and a planned cash consumption of up to EUR 10.5 million in 2015, the Company considers the financial resources as sufficient to finance Epigenomics' operations beyond the year 2015 through potential inflows of funds by means of convertible notes.

Berlin, March 10, 2015

UHY Deutschland AG
Wirtschaftsprüfungsgesellschaft

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Wirtschaftsprüferin
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This annual report is also available in German.

CORPORATE CALENDAR

Report on Business 2014 – Annual press conference and analyst meeting	Wednesday, March 25, 2015
Annual General Shareholders' Meeting 2015 in Berlin	Wednesday, May 13, 2015
3-Month Report 2015 – January 1–March 31, 2015	Tuesday, May 12, 2015
6-Month Report 2015 – January 1–June 30, 2015	Thursday, August 6, 2015
9-Month Report 2015 – January 1–September 30, 2015	Tuesday, November 10, 2015

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